



**MEETINGS SCHEDULED FOR AUGUST
VIA CONFERENCE CALL**

Minnesota Housing
400 Wabasha Street N. Suite 400
St. Paul, MN 55102

THURSDAY, AUGUST 27, 2020

Finance and Audit Committee Meeting

11:30 a.m.

Toll Free: 1 866 899 4679

Access Code: 408-173-365

Regular Board Meeting

1:00 p.m.

Toll Free: 1 866 899 4679

Access Code: 302-718-949

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, August 27, 2020.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 or Minn. Stat. 13D.021 are met. The Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

This page intentionally left blank.



400 Wabasha Street North, Suite 400
 St. Paul, MN 55102
 P: 800.657.3769
 F: 651.296.8139 | TTY: 651.297.2361
www.mnhousing.gov

Mission

Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance housing that is affordable.

Vision

All Minnesotans live and thrive in a safe, stable home they can afford in a community of their choice.

AGENDA

Minnesota Housing Board Meeting

Thursday August 27, 2020

1:00 p.m.

- 1. Call to Order**
- 2. Roll Call**
- 3. Agenda Review**
- 4. Approval of Minutes**
 - A. (page 5) Regular Meeting of July 23, 2020
 - B. (page 9) Special Meeting of August 7, 2020
- 5. Reports**
 - A. **Chair**
 - B. **Commissioner**
 - C. **Committee**
- 6. Consent Agenda**
 - A. (page 11) Commitment, Low and Moderate Income Rental Loan (LMIR), Flexible Financing for Capital Costs Loan (FFCC), and Low and Moderate Income Rental Bridge Loan (LMIRBL); Reconfirmation and Modification, HOME loan commitment; Approval, Waiver of the Predictive Cost Model 25% Threshold
 - Le Sueur Meadows II, D8108, Le Sueur, MN
 - B. (page 29) Extension of Grant Contract, Workforce Housing Development Program
 - City of Luverne, D8058
 - C. (page 31) Housing Trust Fund (HTF) Operating Subsidy (OS) Grant Amendments
 - Kimball Court, D2475
 - American House, D3192
 - D. (page 35) Adoption, Revision to the Board Resolution Establishing the Finance and Audit Committee
- 7. Action Items**
 - A. (page 43) Approval, Revisions to the Rehabilitation Loan Program Procedural Manual
 - B. (page 85) Approval, Enhanced Financial Capacity Homeownership Program Selections
 - C. (page 93) 2020 Capacity Building Initiative Request for Proposal

- D. (page 97) Resolution authorizing the issuance and sale of Rental Housing Bonds, 2020 Series B (Le Sueur Meadows)

8. Discussion Items

- A. (page 179) 4th Quarter FY 2020 Financial Reporting Package
- B. (page 193) Third Quarter 2020 Progress Report: 2020-22 Strategic Plan and 2020-21 Affordable Housing Plan

9. Information Items

- A. (page 199) Semi-annual Variable Rate Debt and Swap Report
- B. (page 213) Post-Sale Report, Homeownership Finance Bonds (HFB) 2020 Series D (Taxable)
- C. (page 221) Semi-Annual Chief Risk Officer Report

10. Other Business

None.

11. Adjournment

DRAFT Minutes
Minnesota Housing Board Meeting
Thursday, July 23, 2020
1:00 p.m.
Via Conference Call

1. Call to Order.

Chair DeCramer called to order the regular meeting of the Board of Minnesota Housing Finance Agency at 1:03 p.m.

2. Roll Call.

Members Present via conference call: Auditor Julie Blaha, Chair John DeCramer, Craig Klausing, Stephanie Klinzing, Stephen Spears, and Terri Thao. Chief Executive Benjamin joined the call at 1:18 p.m. after agenda item number 4.

Minnesota Housing Staff present via conference call: Tal Anderson, Ryan Baumtrog, Vi Bergquist, Sara Bunn, Kevin Carpenter, Rachel Franco, Anne Heitlinger, Jennifer Ho, Song Lee, Kasey Kier, Dan Kitzberger, Greg Krenz, Summer Jefferson, Tresa Larkin, Debbi Larson, Song Lee, James Lehnhoff, Nira Ly, Eric Mattson, Jill Mazullo, John Patterson, Devon Pohlman, Paula Rindels, Rachel Robinson, Anne Smetak, Corey Strong, Emily Strong, Jodell Swenson, Susan Thompson, Mike Thone, Ted Tulashie and Kristy Zack.

Others present via conference call: Michelle Adams; Kutak Rock; Melanie Lien, Piper Sandler & Co.; Anne Mavity, Minnesota Housing Partnership.

3. Agenda Review

No changes.

4. Approval

Regular Meeting Minutes of June 25, 2020 and Emergency Meeting Minutes of July 9, 2020

Motion: Stephanie Klinzing moved to approve the June 25 Regular Meeting Minutes and July 9, Emergency Meeting Minutes. Seconded by Terri Thao. Roll call was taken. Motion carries 6-0. Craig Klausing noted that his vote was not applicable to the July 9 Emergency Meeting Minutes as he did not attend that meeting. All were in favor.

5. Reports

A. Chair

None.

B. Commissioner

Commissioner Ho shared the following with the board:

- Review of the Minnesota Management and Budget (MMB) Internal Control System Certification materials that need to be submitted to MMB by the end of this month took place prior to the board meeting with General Counsel Anne Smetak, Deputy Commissioner Rachel Robinson and Chief Risk Officer Mike Thone.
- Good-bye to Bev Dirske. Bev has been a member of the Minnesota Housing Team for almost 25 years. We wish Bev the best in the next stage of her life and when we can return to the office we will ask her to join us in celebrating her career with Minnesota Housing.

- Minnesota Housing submitted a report to the Office of the Legislative Auditor (OLA) this week related to misuse of funds under the Family Homeless Prevention and Assistance Program (FHPAP).

Coronavirus Relief and Assistance Program:

- On Tuesday, July 14th, Governor Walz announced that \$100 million would be made available to fund a new housing assistance program at Minnesota Housing. For context, the agency receives around \$120 million in state appropriations for 24 months. This is \$100 million for 5 months.

Legislative Update

- 2nd Special Session ended early Monday morning.
- There was no agreement reached on a bonding bill, tax bill, or supplemental budget.
- While a House bill had \$100 million in Housing Infrastructure Bonds, \$16 million in public housing and \$4 million in home ownership development, it didn't have enough votes to get the needed super majority.
- It's now clear that the earliest there could be a bonding bill is late September. The State of Minnesota is issuing bonds for previous bonding bills and related projects and they need to present clear financial picture for potential investors. The position of MMB is that the State can't make significant financial changes leading up to and after the bond sale.
- The agency is just beginning conversations about how to move forward without new HIB authority for the 2020 RFP that closed on July 16. More to come on that issue at a future board meeting.

RFP Update

We are still processing the application data, but here are some highlights:

- Multifamily:
 - 84 applications submitted representing more than 5,000 units and a total development cost of nearly \$1.3 billion
 - For comparison, in 2019, applicants submitted 77 proposals representing approximately 4,800 units with a value of about \$1.2 billion. 38 were selected for funding in the 2019 Consolidated RFP.
- Single Family:
 - 51 applications submitted representing 567 units requesting more than \$27 million in funding
 - For comparison, in 2019, applicants submitted 41 proposals requesting more than \$21 million in funding
- Processing is underway and we anticipated selection recommendations at the December board meeting.

C. Committee

None.

6. Consent Agenda

- A. Grant Contract Modification, Impact Fund -United Community Action Partnership

Motion: Stephanie Klinzing moved to approve Consent Agenda Item A. Seconded by Auditor Julie Blaha. Roll Call was taken. Motion Carries 6-0. Chair DeCramer abstained.

- B. Approval, Deferred Loan Fund Contract Modification, Impact Fund, American Indian Community Development Corporation
- C. Selection and Commitment, Low and Moderate Income Rental Program (LMIR)
 - Grand Oaks Townhomes, D3818, Baxter
- D. Commitment, Low and Moderate Income Rental Loan (LMIR)
 - The Crossings Phase II, D7994, Big Lake
- E. Waiver Request, Housing Trust Fund (HTF) Program Owner Inspection Certification
- F. Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
 - Minnesota Vistas, D5961, St. Paul, MN

Motion: Terri Thao moved to approve Consent Agenda items B-F. Seconded by Chief Executive Benjamin. Roll call was taken. Motion carries 7-0. All were in favor.

7. Action Items

A. Resolution Authorizing the issuance of Additional Series of State Appropriation Bonds (Housing Infrastructure), and Approving the Execution and Delivery of Related Documents

Kevin Carpenter presented to the Board a request for authorization to issue additional State Appropriation Bonds (Housing Infrastructure), the proceeds of which will be used to finance loans for eligible housing infrastructure projects. The resolution outlines the parameters under which the Agency can proceed to issue additional Series of Housing Infrastructure Bonds under the legislative authority granted for Housing Infrastructure Bonds during the 2019 legislative session and specifies the additional projects that may be financed by Housing Infrastructure Bonds. The Agency currently anticipates issuing approximately \$110 million of Housing Infrastructure Bonds in August of 2020, which would utilize the vast majority of the legislative authority granted for Housing Infrastructure Bonds up to and through the 2019 legislative session. Utilization of any legislative authority for the issuance of Housing Infrastructure Bonds provided in the 2020 legislative session will be subject to a new authorizing bond resolution. The Preliminary Official Statement describes the contemplated upcoming issuance of Housing Infrastructure Bonds. Melanie Lien, Kutak Rock joined the call to review the Resolution. Chair DeCramer opened up the discussion. Board members asked questions and staff provided answers.

Motion: Stephanie Klinzing moved Approval, Resolution Authorizing the issuance of Additional Series of State Appropriation Bonds (Housing Infrastructure), and Approving the Execution and Delivery of Related Documents. Seconded by Craig Klausing. Roll call was taken. Motion carries 7-0. All were in favor.

8. Discussion Items

A. Revision to the Board Resolution establishing a Finance and Audit Committee

Anne Smetak and Kevin Carpenter reviewed the revisions to the Finance and Audit Committee board resolution.

B. Covid-19 Update

Rachel Robinson and Kevin Carpenter provided the board with an update on Covid-19 impacts on business operations and the financial markets.

9. Information Items

None.

10. Other Business

None.

11. Adjournment

The meeting was adjourned at 2:28 p.m.

John DeCramer, Chair

DRAFT

DRAFT Minutes
Minnesota Housing Special Board Meeting
Friday August 7, 2020
11:00 a.m.
Via Conference Call

1. Call to Order.

Chair DeCramer called to order the special meeting of the Board of Minnesota Housing Finance Agency at 11:02 a.m.

2. Roll Call.

Members Present via conference call: Chief Executive Melanie Benjamin, Auditor Julie Blaha, Chair John DeCramer, Craig Klausing, Stephanie Klinzing, and Terri Thao.

Minnesota Housing Staff present via conference call: Tal Anderson, Vi Bergquist, Kevin Carpenter, Chuck Commerford, Diane Elias, Rachel Franco, Darryl Hennen, Jennifer Ho, James Lehnhoff, John Patterson, Anne Smetak, Jodell Swenson, Mike Thone, and Nancy Urbanski.

Others present via conference call: Ramona Advani, Office of the State Auditor; Barbara Dacy; Anne Mavity, Minnesota Housing Partnership.

Commissioner Jennifer Ho Update:

- Thanks to the Board for their participation today.
- In consultation with Chair DeCramer and pursuant to delegated authority, Commissioner Ho approved use of up to \$1.25M of CRF dollars for the purposes of establishing a state-wide online application system that will also allow the agency to monitor the flow of applications. Announcing of this partnership will take place the week of August 17. Board asked questions and Commissioner Ho provided answers.

3. Recommendations for Grant Administrator Selections for the Covid-19 Housing Assistance Program

Staff presented to the Board a request for adoption of a resolution authorizing selection of 44 grant administrators to operate the COVID-19 Housing Assistance Program to help prevent evictions, prevent homelessness, and maintain housing stability of individuals and families impacted by COVID-19. This program, including a state-wide referral system and household online application system, will be funded with up to \$100 million from the federal Coronavirus Relief Fund. Chair DeCramer opened up the discussion. Board members asked questions and staff provided answers.

Motion: Stephanie Klinzing moved to approve Recommendations for Grant Administrator Selections for the Covid-19 Housing Assistance Program except Mille Lacs Band of Ojibwe and United Community Action Partnership. Seconded by Terri Thao. Roll call was taken. Motion carries 6-0. All were in favor.

Motion: Craig Klausing moved to approve Grant Administrator, Mille Lacs Band of Ojibwe. Seconded by Auditor Blaha. Roll call was taken. Chief Executive Benjamin refrained. Motion Carries 5-0. All were in favor.

Motion: Auditor Blaha moved to approve Grant Administrator, United Community Action Partnership. Seconded by Craig Klausing. Roll call was taken. Chair DeCramer refrained. Motion Carries 5-0. All were in favor.

4. Request for Delegated Authority Related to the Covid-19 Housing Assistance Program

The Commissioner and Anne Smetak presented to the Board a request for approval of the delegation of authority in order to facilitate the administration of the COVID-19 Housing Assistance Program. Chair DeCramer opened up the discussion. Board members asked questions and staff provided answers.

Motion: Terri Thao moved to approve Request for Delegated Authority Related to the Covid-19 Housing Assistance Program as recommended. Seconded by Chief Executive Benjamin. Roll call was taken. Motion carries 6-0. All were in favor.

5. Other Business

6. Adjournment

The meeting was adjourned at 12:07 p.m.

John DeCramer, Chair

Item: Commitment, Low and Moderate Income Rental Loan (LMIR), Flexible Financing for Capital Costs Loan (FFCC), and Low and Moderate Income Rental Bridge Loan (LMIRBL)

Reconfirmation and Modification, HOME loan commitment

Approval, Waiver of the Predictive Cost Model 25% Threshold

– Le Sueur Meadows II, D8108, Le Sueur, MN

Staff Contact(s):

Paul Marzynski, 651.296.3797, paul.marzynski@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

At the November 1, 2018 board meeting, the proposed development was selected for financing under the Low and Moderate Income Rental (LMIR) and the Flexible Financing for Capital Costs (FFCC) programs under Resolution Number 18-063. At that same meeting, deferred funding under the HOME and Economic Development and Housing Challenge (EDHC) loan programs were committed under Resolution Number 18-061. Agency staff completed the underwriting and technical review of the proposed development and recommends:

1. The adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of up to \$1,671,000; a Low and Moderate Income Rental Bridge Loan (LMIRBL) program commitment not to exceed \$5,665,000; and a deferred funding commitment in the amount of \$548,000 under the Flexible Financing for Capital Costs (FFCC) program.
2. The adoption of a resolution for the reconfirmation of the HOME commitment, and modification to the loan amount from \$4,501,000 up to \$5,799,000 and an extension of the maturity to November 30, 2020.
3. The approval of a waiver to the Predictive Cost Model 25% threshold.

All commitments are subject to the terms and conditions of the agency term letter.

Fiscal Impact:

LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the end loan without incurring financing expenses. Minnesota Housing will also earn interest rate spread income on the LMIRBL, and both the bridge loan and the end loan will generate additional fee income. The HOME loan will be funded from federal appropriations and will not have any fiscal impact on the agency's financial condition. The FFCC loan will be funded from Pool 3 resources, and will not earn interest for the Agency.

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☒ Support People Needing Services
- ☒ Strengthen Communities

Attachments:

- Development Summary
- Resolution
- Resolution Attachment: Term Letter

DEVELOPMENT SUMMARY

SECTION I: PROJECT DESCRIPTION AND RECOMMENDATIONS

Project Information			
Development Name	Le Sueur Meadows II	D#8108	M#17917
Address	409 Turril Street		
City	Le Sueur	County	Le Sueur
Date of Selection	November 1, 2018	Region	Southwest

A. Project Description and Population Served

- Le Sueur Meadows II is a 39-unit new construction development consisting of four, two-story walk-up buildings with one-, two-, and three-bedroom units. The development will serve workforce households and provide supportive housing with:
 - Four units reserved for people with disabilities (PWD), and;
 - Four units reserved for high priority homeless (HPH) targeted to the Continuum of Care priority of youth with children
- The development will be a 100% Low Income Housing Tax Credit (LIHTC) property with a 40-year Land Use Restriction Agreement (LURA). Household incomes are restricted to the 30%, 50%, and 60% MTSP levels.
- Twenty-seven units are restricted under the HOME Program, with nine units limited to the HOME Low rents and 18 units limited to the HOME High rents.
- Nine units benefit with rental assistance consisting of:
 - Four units of Housing Support (HS);
 - Five units of Section 8 project-based vouchers, and;
 - These nine units are deeply affordable at the 30% MTSP household income level.
- The project is anticipated to begin construction in October 2020 and will open for residents in September 2021.

B. Mortgage Information

Ownership Entity:	CB LSM II Limited Partnership
Sponsor:	CommonBond Communities
General Partner(s)/ Principal(s):	CB LSM II LLC Member: CommonBond Communities
Guarantor(s):	CommonBond Communities

C. Development Team Capacity Review

The sponsor, CommonBond Communities, has the experience and capacity to complete the project. The developer has utilized agency first mortgages, deferred loans, bridge loans, and low income housing tax credits with proven success.

The property manager, CommonBond Housing, was established in 1971 and currently manages over 100 affordable housing developments consisting of over 6,100 units. The property manager has the capacity to manage this development.

CommonBond Communities, through their Advantage Services program, is experienced in administering supportive services to PWD and HPH populations.

The project architect, Miller Hanson Architects, is a women-owned business and has successfully completed similar types of affordable housing developments in the agency's portfolio.

The project general contractor, Frerichs Construction Company, has successfully completed many affordable housing developments in the agency's portfolio.

D. Current Funding Request

Loan Type	Program	Source	Amount	IR	MIP	Term	Amort/ Cash Flow	Construction or End Loan
Bridge	LMIRBL	Tax Exempt RH Bonds	\$5,665,000	TBD*	N/A	24 mths*	N/A	Construction
Permanent Amortizing	LMIR	Housing Investment Fund (Pool 2)	\$1,671,000	4.50%	0.125%	40 yrs	N/A	End
Deferred**	HOME		\$5,799,000	0.00%	N/A	40 yrs	No	Construction and End
Deferred**	FFCC	Housing Affordability Fund (Pool 3)	\$548,000	0.00%	N/A	40 yrs	No	End

* Actual LMIRBL interest rate and loan term will be set after the issuance of the tax-exempt Rental Housing (RH) Bonds.

** Interest rate on deferred loans set at 0.00% but may increase up to 1.00%, if requested prior to closing

First Mortgage Loan to Cost: 14.9% **First Mortgage Loan to Value: 76.8%**

E. Significant Changes since Date of Selection

- Construction cost
Since project selection two years ago, construction costs have increased by 27%, or \$1,770,000. The scope of work has remained largely the same. The cost increase is a result of the competitive sub-contractor construction environment and two years of cost escalation.
- LMIR first mortgage
The LMIR first mortgage increased 16%, or \$228,000, mostly attributed to the interest rate being

reset to a lower rate of 4.50%, which was authorized by the agency's finance staff after the original rate lock expired.

- **Tax Credit Equity**
The tax credit equity proceeds increased 28%, or \$624,000, due to the increase in tax credit basis from the higher construction cost and the tax credit investment limited partner increasing the price per tax credit from \$0.85 to \$0.92.
- **Agency Deferred Loan Commitments**
The aggregate of the three agency deferred loans at selection: HOME; Economic Development and Housing Challenge (EDHC); and FFCC; increased \$799,000, or 14%. Additional deferred agency loan funds were necessary to bring the project's sources and uses into balance after the project incurred construction costs increases. Staff recommends that the HOME loan amount be increased from \$4,501,000 to \$5,799,000. The increased amount will cover the \$799,000 funding gap and replaces the \$499,000 EDHC loan with HOME funds. The development was originally selected with an agency EDHC loan, which will be reallocated to other agency projects.

The HOME loan commitment expired on July 2, 2020. Staff is seeking board approval for the reconfirmation of the HOME commitment and the modification of the amount from \$4,501,000 up to \$5,799,000 and to extend the maturity to November 30, 2020.

SECTION II: FINAL SOURCES AND USES; FINANCING DETAILS

A. Project Uses

Description	Amount	Per Unit
Acquisition	\$ 400,000	\$ 10,256
Construction Costs	8,742,312	224,162
Environmental Abatement	0	0
Professional Fees	502,112	12,875
Developer Fee	1,000,000	25,641
Financing Costs	40,000	1,026
Total Mortgageable Costs	443,827	11,380
Reserves	108,462	2,781
Total Development Cost	\$ 11,236,713	\$ 288,121

B. Permanent Capital Sources

Description	Amount	Per Unit
LMIR First Mortgage	\$ 1,671,000	\$ 42,846
Equity Proceeds: National Affordable Housing Trust (NAHT)	2,869,681	73,582
HOME Loan	5,799,000	148,692
Flexible Financing Cap Cost (FFCC) Loan	548,000	14,051
Employer Donations	1,000	26
Rebates	193,045	4,950
Deferred Developer Fee	154,987	3,974
Total Permanent Financing	\$ 11,236,713	\$ 288,121

C. Financing Structure

- The development will qualify for an estimated \$312,000 of annual 4% tax credits, providing an estimated \$2,869,681 of equity proceeds from National Affordable Housing Trust (NAHT). The term of the LURA will be 40 years.
- The \$5,665,000 LMIRBL construction loan provided by the agency will be funded with agency tax-exempt Rental Housing (RH) Bonds to secure the 4% tax credits. The LMIRBL interest rate and loan term will be set upon the issuance of the tax-exempt RH Bonds
- The \$1,671,000 LMIR first mortgage has a 4.50% interest rate plus 0.125% MIP with a 40-year amortization and a 40-year term.
- The \$5,799,000 HOME deferred loan has a 0.00% interest rate and will be co-terminus with the LMIR first mortgage term. The interest rate can be set up to 1.00% if requested by the limited partner investor prior to closing. The development will have 27 units designated as HOME Program units with nine units restricted to Low HOME rent limits and 18 units restricted to High HOME rent limits.
- The \$548,000 Flexible Financing Capitalized Cost (FFCC) deferred loan will have an interest rate of 0.00% and will be co-terminus with the LMIR first mortgage term. The interest rate can be set up to 1.00% if requested by the limited partner investor prior to closing.

D. Cost Reasonableness and Request for Waiver of the Predictive Cost Model

- Predictive Cost Model Estimate and Waiver Recommendation

The budgeted total development cost (TDC) per unit of \$288,121 is 43.9 percent above the \$200,231 predictive model cost estimate, which exceeds the 25% threshold, and therefore requires board approval.

At selection in 2018, the TDC was just under the 25% threshold at 24.3%. The increase is mostly attributed to a 27% increase in construction costs. The agency architect has reviewed the project's plans and budget, and considers the per unit construction cost for the development reasonable, but on the high side for a non-elevator building. The higher TDC can be attributed to: (a) the competitive sub-contractor construction environment, (b) two years of cost escalation since application; and (c) the multi-building design with fewer units per building, which is similar in design to a townhome style setting that requires more exterior materials than a single building design with a higher unit density.

The predictive cost model is a tool that Minnesota Housing uses to identify, from a statistical perspective, proposed rental developments with unusually high costs. The model predicts the costs of a proposed development based on building characteristics and cost data from developments that the agency has previously financed or issued tax credits and is benchmarked against industry-wide construction data. While the model is statistically robust, explaining 64% to 79% of the variation in historical costs, it cannot capture all of the components of every proposed project. As a result, if a project's proposed TDC is more than 25% over the predicted costs, staff must conduct additional due diligence and determine that the costs are still reasonable before seeking a cost waiver from the board. With respect to Le Sueur Meadows II, the agency architect, underwriting, and research teams believe the costs are reasonable.

Agency staff has concluded that the TDC for Le Sueur Meadows II is reasonable and seek approval for a board waiver from the predictive cost model 25% threshold limit.

- Cost Containment:

Selected as a 4% tax credit development in 2018, the project was not eligible for cost containment points.

SECTION III: UNDERWRITING

A. Rent Grid

Unit Type	Number	Net Rent*	Rent Limit (% of MTSP or AMI)	Income Limit (% of MTSP or AMI)	Rental Assistance Source
1BR**	4	630	60% MTSP	30% MTSP	Housing Support (HS)
2BR**	2	670	60% MTSP	30% MTSP	Section 8 Project Based Vouchers (PBV)
3BR**	2	998	60% MTSP	30% MTSP	Section 8 Project Based Vouchers (PBV)
3BR**	1	998	60% MTSP	30% MTSP	Section 8 Project Based Vouchers (PBV)
1BR**	5	630	60% MTSP	30% MTSP	
2BR**	16	746	50% MTSP	60% MTSP	
2BR	2	750	50% MTSP	60% MTSP	
3BR**	2	850	50% MTSP	60% MTSP	
3BR	5	850	50% MTSP	60% MTSP	

*Net Rents are the underwriting rents and are net of a utility allowance. The underwriting rents may not reflect the maximum rent limits

** Designated as HOME Program units: Nine units at Low HOME rents, the HUD Very Low-Income limit (50% AMI), and 18 units at High HOME rents, the HUD Low-Income limit (80% AMI)

B. Feasibility Summary

All projects are underwritten within the agency's underwriting guidelines, unless a modification is approved by the Mortgage Credit Committee. This includes management and operating expenses, vacancy rate, rent and income inflators, and annual replacement reserve contributions. Projects also undergo a sensitivity analysis on property operations to further enhance underwriting.

- The project maintains positive cash flow for 15 years, with a projected debt coverage ratio (DCR) of 1.16 in year 15.
- The project was underwritten at 7.0 percent vacancy with a 2.0 percent income and 3.0 percent expense inflators.
- Four units designated for PWD households will benefit from supportive services and rental assistance through Housing Support (HS).

- Five units will benefit from Section 8 project-based vouchers (PBV) rental assistance. Four of these PBV units are designated for the benefit of the four HPH households and one non-supportive housing unit.
- Replacement reserves are budgeted at \$450 per unit per year. One year of replacement reserves, or \$17,500, are capitalized at closing.

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

RESOLUTION NO. MHFA 20-XX

**RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM
LOW AND MODERATE INCOME RENTAL BRIDGE LOAN (LMIRBL) PROGRAM
AND FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) PROGRAM**

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Le Sueur Meadows II
Sponsors:	CommonBond Communities
Guarantors:	CommonBond Communities
Location of Development:	Le Sueur
Number of Units:	39
Amount of LMIR Mortgage: (not to exceed)	\$1,671,000
Amount of LMIRBL (not to exceed)	\$5,665,000
Amount of FFCC Loan: (not to exceed)	\$548,000

WHEREAS, Agency staff has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction and rehabilitation of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, Agency staff has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide permanent mortgage loans to the sponsor or an affiliate thereof from the Housing Investment Fund (Pool 2 under the LMIR Program), and the Housing Affordability Fund (Pool 3 under the FFCC Program) and a bridge loan from the proceeds of Rental Housing Bonds (if authorized by the Board) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed \$1,671,000; and

2. The interest rate on the permanent LMIR loan shall be 4.50 percent per annum (subject to change, as set forth in the attached Agency term letter dated July 22, 2020), plus 0.125 percent per annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 40-year amortization; and
3. The term of the permanent LMIR loan shall be 40 years; and
4. The amount of the FFCC deferred loan shall not exceed \$548,000; and
5. Repayment of the FFCC loan shall be deferred, with interest up to 1.00 percent, and the loan term shall be co-terminus with the LMIR loan; and
6. The combined LMIR and FFCC End Loan Commitment shall be entered into on or before December 31, 2020 and shall have a 24-month term (which shall also be the LMIR and FFCC commitment expiration date); and
7. The amount of the LMIRBL shall not exceed \$5,665,000; and
8. The LMIRBL transaction will be financed with the proceeds of tax-exempt Rental Housing Bonds of the Agency, and the commitment is subject to the ability of the Agency to sell bonds on terms and conditions, and in a time and manner, acceptable to the Agency; and
9. The interest rate on the LMIRBL will be based on the interest rate on the Rental Housing Bonds issued to finance the LMIRBL plus 1.00 percent interest will be payable monthly, and the principal will be due in a balloon payment no more than 24 months after closing; and
10. The LMIRBL commitment shall be entered into on or before December 31, 2020 and shall have a six-month term (which shall also be the LMIRBL commitment expiration date); and
11. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and
12. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
13. Sponsor shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.11 debt service coverage ratio (assuming stabilized expenses) for three successive months; and
14. Sponsor shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
15. The sponsor, the general contractor, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deems necessary, shall execute all such documents relating to said loans, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deems necessary.

Adopted this 27th day of August 2020

CHAIRMAN

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

**RESOLUTION NO. MHFA 20-XX
Modifying Resolution No. MHFA 18-061**

**RESOLUTION APPROVING MORTGAGE LOAN RECONFIRMATION
AND MODIFICATION HOME PROGRAM**

WHEREAS, the Board has previously authorized the HOME loan commitment for Le Sueur Meadows II, MHFA Resolution No. 18-061; and

WHEREAS, the commitment in MHFA Resolution No. 18-061 expired on July 2, 2020; and

WHEREAS, the development continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies; and

WHEREAS, Agency staff have determined that the development has incurred an increase in construction costs; and

WHEREAS, Agency staff have determined that efficiencies can be realized by combining two proposed loans into one deferred loan.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby renews the commitment of a HOME loan for the development and increases the HOME funding commitment for the development upon the following terms and conditions:

1. The maximum amount of the HOME loan for the development shall be increased from \$4,501,000 up to \$ 5,799,000;
2. The deadline to close established by MHFA Resolution No. 18-061 is extended to November 30, 2020;
3. All other terms and conditions of MHFA Resolution No. 18-061 remain in effect.

Adopted this 27th day of August 2020

CHAIRMAN



400 Wabasha Street North, Suite
400 St. Paul, MN 55102
P: 800.657.3769
F: 651.296.8139 | TTY:
651.297.2361
www.mnhousing.gov


July 22, 2020

Deidre Schmidt
CommonBond Communities
1080 Montreal Avenue
St. Paul, MN 55116

RE: Term Letter
Le Sueur Meadows II, Le Sueur
MHFA Development #D8108, Project # M17917

Dear Ms. Schmidt:

Minnesota Housing Finance Agency ("Minnesota Housing") staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to Minnesota Housing's Board of Directors' approval and meeting all underwriting standards, delivery of required due diligence items, satisfactory loan documentation and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

 **Borrower:** A single asset entity: CB LSM II Limited Partnership

General Partner: CB LSM II LLC ^{Sole} ~~Managing~~ Member: CommonBond Communities

Development Description/Purpose: Le Sueur Meadows II project is the new construction of a 39-unit apartment building located in Le Sueur, Minnesota

July 22, 2020
Page 2**Minnesota Housing Loan Type/Terms**

Program	Low and Moderate Income Rental Program (LMIR) (HUD Risk Share)	Low and Moderate Income Rental Program (LMIR) Bridge Loan**	HOME Program (HOME)	Flexible Financing for Capital Costs (FFCC)
Loan Amount	\$1,671,000	\$5,665,000	\$5,799,000	\$548,000
Interest Rate	*4.50%	Bond financing rate + 1.0%	0.00%	0.00%
Mortgage Insurance Premium (%)	0.125% <i>(first year premium is paid in advance)</i>	Not Applicable	Not Applicable	Not Applicable
Term	40 Years	Approx. 24 months	40 Years	40 Years
Amortization/Repayment	40 Years	Interest only during term	Deferred lump sum payment due in 40 years	Deferred lump sum payment due in 40 years
Prepayment Provision	No prepayment first 10 years from date of the Note	No prepayment for 18 months	Prepay at any time without penalty	Prepay at any time without penalty
Nonrecourse or Recourse	Nonrecourse	Recourse	Nonrecourse	Nonrecourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	End Loan	Construction Bridge Loan	Construction/Permanent Loan	End Loan
Lien Priority***	First	First <i>(during construction period)</i>	Second	Third

*Subject to change. The interest rate is subject to achieving the following hurdles. Failure to meet either of the hurdles may result in the interest rate being reset at the then current rate, at Minnesota Housing's sole discretion:

- Board approval to enter into a loan commitment must be obtained by December 31, 2020; and
- The permanent loan must close by July 31, 2022.

**Subject to the ability of Minnesota Housing to sell bonds on terms and conditions, and in a time and manner, acceptable to Minnesota Housing.

***The HOME Declaration will be in a first position.

July 22, 2020
 Page 3

Origination Fee:	LMIR HUD Risk Share Loan: \$33,420 LMIR Bridge Loan: \$28,325 (both are payable at the earlier of loan commitment or loan closing)
Inspection Fee:	\$20,755 (payable at the earlier of loan commitment or loan closing)
Guaranty/Guarantor(s):	Completion, repayment and operations Guaranty to be provided by: CommonBond Communities
Operating Deficit Reserve Account:	\$50,760 to be funded on the day of LMIR HUD Risk Share Loan closing by cash or letter of credit (outside of the development budget) to be held by Minnesota Housing.
Operating Cost Reserve Account:	Not Applicable.
Replacement Reserve Account:	Capitalized replacement reserve in the amount of \$17,550 funded at construction completion. A replacement reserve will be required in the amount of \$450/unit/annum. The monthly replacement reserve will be \$1,462.50.
Escrows:	Real estate tax escrow and property insurance escrow to be established at the time of permanent loan closing and held by Minnesota Housing.
Collateral/Security:	Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.
HAP or other subsidy agreement	Commitment to a minimum of 10 years of affordability from the date of loan for nine units consisting of: <ul style="list-style-type: none"> • Four units of Housing Support • Five units of Section 8 project-based vouchers
Rent and Income Requirements:	LMIR and FFCC <ul style="list-style-type: none"> • 39 units with incomes not exceeding 60% and rents at 60% MTSP. Commitment to 40 years of affordability from the date of loan closing. HOME <ul style="list-style-type: none"> • 18 units at High HOME rents, as published by HUD for the HOME program; with Low Income Limits (80% Area Median Income as published by HUD for the HOME program) • 9 units at Low HOME rents, as published by HUD for the HOME program; with Very Low Income Limits (50% Area Median Income as published by HUD for the HOME program)

July 22, 2020
Page 4

- 20 year of compliance is required under the HOME program

Other Occupancy:	Four High Priority Homeless (HPH) units targeted to youth with children. Restricted to HPH for 40 years Four People with Disabilities (PWD) units.
Other Requirements:	The HOME program loan is subject to the terms in the attached Deferred Selection Criteria.
Closing Costs:	Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.
Expiration Date:	This term letter will expire on the earlier of (i) six months from the date of this letter or (ii) Minnesota Housing board approval of a loan commitment.
Additional Terms:	None
Other Conditions:	Receipt of executed AHAP for 5 units.
Board Approval:	Commitment of all loans under the LMIR, LMIR BL and FFCC programs is subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loans.
Not a Binding Contract:	This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Maggie Nadeau at maggie.nadeau@state.mn.us on or before August 1, 2020.

If you have any questions related to this letter, please contact Paul Marzynski at 651.296.3797 or by e-mail at paul.marzynski@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

James Lehnhoff
Assistant Commissioner, Multifamily

July 22, 2020
Page 5

AGREED AND ACCEPTED BY:

CB LSM II LIMITED PARTNERSHIP

By: 

~~Deidre Schmidt, Chief Executive Officer~~

Cecile Bedor

President/Chief Manager of the General Partner

Date Accepted: August 1, 2020

This page intentionally left blank.

Item: Extension of Grant Contract, Workforce Housing Development Program
- City of Luverne, D8058

Staff Contact(s):

Sara Bunn, 651.296.9827, sara.bunn@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

Staff requests an extension of the term of the Workforce Housing Development Program Grant Contract with the City of Luverne and an extension of the construction completion date.

Fiscal Impact:

The Workforce Housing Development Program is funded by state appropriations; grants offered under the program do not earn interest income for the Agency.

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):

- Summary and Background

Recommendation Summary:

The City of Luverne has requested that its Workforce Housing Development Program Grant Contract be extended. In light of the circumstances, staff recommends that the Workforce Housing Development Program Grant Contract be extended from 5/1/2021 to 5/1/2022 and the construction completion deadline be extended from 8/13/2020 to 5/1/2022.

Program Background:

The Workforce Housing Development Program (WHDP) provides up to 25% of the total development cost in project gap financing for the construction or adaptive reuse of market rate residential rental properties. The program requires a local match of \$1 for every \$2 of a WHDP award. Project awardees are able to choose either a grant or a deferred forgivable loan. Contract or agreement terms are three years and specify that the start of construction must begin within 12 months of execution; construction completion must then occur within two years of the construction start date.

Project Background:

The City of Luverne received an award of \$680,000 in grant funding in the 2017 WHDP Request for Proposals (RFP), and the Grant Contract was executed on May 1, 2018. The funding is to be used for a 27-unit new construction project. Site work started on 8/13/2018 and was financed by city's matching funds.

This project initially encountered delays after the Grant Contract was signed due to difficulty retaining a developer. The city has since been able to secure a local developer, Donald Jahnke and Mike Bourquin, and is moving forward with the same 27-unit project.

The project has experienced recent delays related to the COVID-19 pandemic, including delays with loan approvals due to the influx of Paycheck Protection Program loans at the bank financing the project, along with environmental and appraisal delays related to Rural Development (RD) financing. The environmental work and appraisal are now complete. A loan commitment has been received from Lincoln State Bank and is awaiting the conditional commitment from RD before starting construction on the building. Given the fact that the project has more recently been restarted, it is making progress after a string of delays and staff recommends extending the construction completion deadline to spring 2022. Refer to the table below for a summary of relevant dates.

Awardee Name	Contract Executed	Original Contract Expiration	Original Construction Start Deadline	Actual Construction Start	Original Construction Completion Deadline	Forecasted Construction Completion Deadline
City of Luverne	5/1/2018	5/1/2021	5/1/2019	8/13/2018	8/13/2020	5/1/2022



Board Agenda Item: 6.C
Date: 8/27/2020

Item: Housing Trust Fund (HTF) Operating Subsidy (OS) Grant Amendments

- Kimball Court, D2475
- American House, D3192

Staff Contact(s):

Vicki Farden, 651.296.8125, vicki.farden@state.mn.us

Joel Salzer, 651.296.9828, joel.salzer@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

Staff requests approval of a resolution to increase the HTF OS grant for American House (D3192) and Kimball Court (D2475).

Fiscal Impact:

The OS Program is funded by state appropriations, with individual awards structured as grants, which do not earn interest for the Agency.

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☒ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):

- Background
- Resolution

The Operating Subsidy Program (OS) provides funds for revenue shortfalls and unique costs associated with operating low-income supportive housing developments. Minnesota Housing provided the initial OS funding for selected properties in conjunction with capital funding in its Multifamily Consolidated Request for Proposals (RFPs) from 2005 – 2012.

These supportive housing developments leverage many other funding sources for operations and unique costs, including from such sources as Housing Support, HUD Continuum of Care, Section 8 Rental Assistance, Medicaid, philanthropy, and other state program grants. The OS funding is critical to preserve affordable supportive housing units for very low income households with long histories of homelessness.

All OS grantees are required to seek other revenue sources to reduce or eliminate the need for operating subsidies. The OS grants are disbursed based on actual operating deficits up to the approved grant amount. When a property reduces or eliminates the operating deficit, the OS grant may also be reduced or ended. Two existing OS grantee properties, Nicollet Square and Cedar View, recently secured Moving to Work (MTW) vouchers from the Minneapolis Public Housing Authority. MTW vouchers are a form of rental assistance that helps stabilize property operations. As a result, the amount of OS grant needed by these two properties decreased by a combined \$302,871.

Beacon Interfaith Housing Collaborative acquired American House and Kimball Court from Amherst H. Wilder Foundation in May 2010. Beacon assumed the capital and operating funding as it was structured by Wilder, including the OS funding. Since assuming ownership, Beacon has recognized that the properties serve a population with more significant needs than they had anticipated. They have worked to bring in more revenue and to improve operations and services, including a new partnership with Avivo in 2017 to provide services to the tenants. Beacon has been able to leverage more funding for services through Medicaid billing and has increased Housing Support to provide more rent revenues. However, both properties continue to experience operating deficits. Based on the facts and circumstances of this situation, the reduction in OS funding for Nicollet Square and Cedar View can be made available for American House and Kimball Court.

These four existing OS grants are currently structured with a five-year term, with the annual grant amounts detailed in the Grant Agreement for each year from July 1 – June 30. The grants are currently at the beginning of year four of the grant term. The new MTW funding starts on October 1, 2020, for Nicollet Square and Cedar View. Their OS grants will be reduced accordingly for the remainder of the grant term, which does not require board action.

The Kimball Court and American House OS grants are recommended to be increased by the following amounts effective on October 1, 2020:

	Kimball Court D2475	American House D3192	Nicollet Square D5909	Cedar View D3912	Net Change 5 Year Total for the 4 Grants
Existing 5 Year Grant Total	\$ 310,795	\$ 412,500	\$ 910,190	\$ 275,155	\$ 1,908,640
Increase/(Decrease)	\$ 110,371	\$ 192,500	(\$213,567)	(\$89,304)	\$ -
New 5 Year Grant Total	\$ 421,166	\$ 605,000	\$ 696,623	\$ 185,851	\$ 1,908,640

Minnesota Housing's asset management and housing stability staff have reviewed the property financials and projected budgets for the four properties. Staff identified Kimball Court and American House as the highest priority for OS Grant increases to help address operating deficits and services. Even with the OS grant increases, the average annual cost per unit for the OS grants at American House and Kimball Court are within the average annual OS grant amounts for revenue shortfall of \$1,751 per unit.

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-XX

RESOLUTION APPROVING HOUSING TRUST FUND OPERATING SUBSIDY GRANT AMENDMENTS

WHEREAS, the Minnesota Housing Finance Agency (Agency) has proposed to increase the Operating Subsidy grant funds for two supportive housing properties serving families and individuals who are low income, homeless, or long-term homeless.

WHEREAS, Agency staff has determined that the grant increases are in compliance with the Agency's rules, regulations, and policies; that such grants are not otherwise available, wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that the grant increases will assist in fulfilling the purpose of Minn. Stat. ch. 462A.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to increase grant funds and amend the two Grant Agreements using state resources as set forth below, subject to the terms and conditions contained herein and in the respective Grant Agreements:

1. Agency staff shall process the recommended grant increases and amendments for up to the total amended grant amount within the existing five (5) year grant terms;

D#	Property Name	City	Current 5 Year Grant Amount	Amended 5 Year Grant Amount
D3192	American House	Saint Paul	\$ 412,500	\$ 605,000
D2475	Kimball Court	Saint Paul	\$ 310,795	\$ 421,166

2. The issuance of grant amendments in form and substance acceptable to the Agency staff and the execution of the individual grant amendments shall occur no later than 60 days from the adoption date of this Resolution; and
3. The sponsors and such other parties shall execute all such documents relating to said grant amendments as the Agency, in its sole discretion, deems necessary.

Adopted this 27th day of August 2020

CHAIR

Item: Adoption, Revised Board Resolution Establishing a Finance and Audit Committee

Staff Contact(s):

Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

Anne Smetak, 651.263.1460, anne.smetak@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

At the Board meeting on July 23, 2020, staff presented a proposed revision to the resolution, adopted in September 2012, creating the Finance and Audit Committee and providing for its purpose and responsibilities. Staff now requests the Board adopt the revised resolution.

Fiscal Impact:

None

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):

- Redline of Proposed Changes to Resolution
- Clean Proposed Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street N
St. Paul, Minnesota
55102

RESOLUTION NO. MHFA 12-061

RESOLUTION ESTABLISHING A FINANCE AND AUDIT
COMMITTEE

WHEREAS, the members of the Minnesota Housing Finance Agency ("Board") have determined a need to establish a Board Finance and Audit Committee.

NOW THEREFORE BE IT RESOLVED:

THAT, a Finance and Audit Committee ("Committee") be established as follows:

Committee Members. The Board shall have a ~~Finance and Audit~~ Committee ("~~Committee~~") consisting of all members of the Board. The Board Chair shall preside at all Committee meetings. In the Board Chair's absence, the Vice Chair shall preside. A majority of the members (excluding vacancies) shall constitute a quorum for the purpose of conducting the Committee's business and exercising its powers and for all other purposes. When a quorum is in attendance, action may be taken by the Committee upon a vote of a majority of the members present.

1. **Committee Purpose.** The purpose of the Committee is to receive and review, as necessary, certain financial information of the Minnesota Housing Finance Agency ("Agency") and, when necessary, recommend action by the members of the Board as a whole. The Committee is responsible for overseeing the Agency's accounting and financial reporting processes, the audit of the Agency's annual financial statements, and the overall approach to risk management and internal controls. ~~The term "financial information" includes, but is not limited to, debt issuance and management, financial results of the Agency and the selection of external financial service providers. The Committee is responsible for the oversight of Agency financial management matters including, but not limited to, debt issuance and management, investment management, selection of external financial service providers and the review of the Agency's financial results. The Committee is also responsible for overseeing the accounting, internal controls and financial reporting processes of the Agency and the audit of the annual financial statements of the Agency.~~ Some of the Committee's responsibilities may be delegated in writing to Agency staff, as appropriate.

The Committee shall meet as needed to address matters. The Committee shall have access to financial expertise, whether in the form of Agency staff or outside financial advisors or auditors. It may ask others to attend its meetings and provide pertinent information as necessary.

2. **Committee Responsibilities.** The Committee shall perform the following duties unless they are performed directly by the Board:

- a) Recommend to the Board the selection and replacement of any financial advisor, investment banker, and publicly registered public accounting firm (independent auditor) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Board. ~~Each such financial advisor and registered public accounting firm shall report directly to the Committee.~~
- b) ~~As necessary, meet~~ Meet with the financial advisor, investment bankers, independent outside ~~auditors,~~ other Agency staff, review Agency financial reports, evaluate or receive evaluations of the performance of the financial advisor, the independent financial auditor, and receive reports on the sale and issuance of bonds ~~the Chief Financial Officer and others, as necessary.~~
- c) ~~Review with Agency staff interim financial reports issued.~~
- d) Oversight of agency risk and internal controls, including consultation with senior management and the ~~Approve the hiring of a~~ Chief Risk Officer, ~~who reports to the Committee.~~
- e) Review, at least annually, with the independent auditor, and Agency staff:
 - 1. The independent auditors plan for the financial audit, and scope thereof,
 - 2. The independent auditor's report on the Agency's annual financial statements and related footnotes,
 - 3. The independent auditor's report on the Agency's Federal Program single audit,
 - 4. The independent auditor's required communications, including reporting on significant accounting areas and estimates,
 - 5. The independent auditor's report on internal controls and governmental audit standards including, as necessary, any assessment or report related to the Agency's computerized information system controls and security,
 - 6. Any other matters the independent auditor chooses to bring to the attention of the Committee. ~~Evaluate the financial advisor, investment banker, and~~

~~publicly registered public accounting firm.~~

~~e)f) Review, at least annually, with Agency staff, the Chief Risk Officer and counsel:~~

~~1. The Agency's Risk Management and Internal Control Framework, Regulatory and legal matters that, in the opinion of Agency staff and counsel, may have a material impact on the financial statements, related Agency compliance policies and programs and reports.~~

~~2. Agency compliance with the Risk Management and internal Control framework, including, but not limited to:~~

~~a. – code of conduct, ethics and conflict of interest~~

~~b. procedures for the receipt, retention and treatment of reports of wrongdoing or other concerns received, and reporting on investigative activities and resolutions, if any,~~

~~a.c. risk assessment and other internal control reviews, including the Agency Risk Profile, Annual Internal Control System Certification, and program/business process risk assessment projects. The Agency's code of conduct and ethics to ensure that it is adequate and up-to-date.~~

~~23. The results of the Chief Risk Officer's review of compliance with the Agency's code of conduct and ethics.~~

~~34. The Agency's and Chief Risk Officer's procedures for the receipt, retention and treatment of complaints received by the Agency or the Chief Risk Officer regarding accounting, internal accounting controls, or auditing matters that may be submitted by any person external or internal to the Agency, including reviewing procedures for the confidential, anonymous submissions by Agency employees of concerns regarding questionable accounting or auditing matters and also review any such complaints received, their current status and the resolution, if one has been reached.~~

~~Review, at least annually, with the independent financial auditors, Agency staff and counsel:~~

~~The audit scope and plan of the independent financial auditors.~~

~~The Agency's annual financial statements and related footnotes.~~

~~The independent financial auditors' audit of the financial statements and their report thereon.~~

~~All material written communications between the independent auditors and Agency management, including:~~

~~The independent financial auditors' judgments about the quality, not just~~

~~the acceptability, of the Agency's accounting practices.~~

~~Any significant changes required in the independent financial auditors' audit plan.~~

~~Any serious difficulties or disputes with Agency management encountered during the audit.~~

~~The effect of any regulatory and accounting initiatives.~~

~~Material prepared by independent auditors regarding the adequacy of the Agency's internal controls, including computerized information system controls and security.~~

~~Any significant risks or exposures facing the Agency, including an assessment of the steps Agency management has taken or proposes to take to minimize such risks to the Agency and periodically review compliance with such steps.~~

~~Receive financial briefings by Agency staff and external financial service providers.~~

~~Receive and discuss reports regarding the proposed issuance and sale of bonds.~~

~~f)g)~~ Make reports and recommendations, as necessary, to the Board.

~~g)h)~~ Perform such other functions as assigned by the Board.

l) The Committee may create subcommittees as necessary.

Adopted this 21st day of September, 2012.

CHAIRMAN

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite #400
Saint Paul, Minnesota 55102**

RESOLUTION NO. MHFA 20-_____

**REVISING AND RESTATING THE ROLE OF THE FINANCE AND
AUDIT COMMITTEE AND SUPERSEDING**

RESOLUTION No. 12-062

WHEREAS, the members of the Minnesota Housing Finance Agency (collectively known as the “Board”) previously established a Finance and Audit Committee (“Committee”) through the adoption of Resolution No. 12-062.

WHEREAS, the Board has determined a need to update the resolution governing that Committee to better reflect the activities and function of the Committee.

NOW THEREFORE BE IT RESOLVED:

THAT, Resolution No. 12-062 is hereby superseded by this Resolution, which updates and restates the activities and function of the Committee;

THAT, the Committee shall perform the activities designated herein:

1. Committee Members. The Board shall have a Committee consisting of all members of the Board. The Board Chair shall preside at all Committee meetings. In the Board Chair’s absence, the Vice Chair shall preside. A majority of the members (excluding vacancies) shall constitute a quorum for the purpose of conducting the Committee’s business and exercising its powers and for all other purposes. When a quorum is in attendance, action may be taken by the Committee upon a vote of a majority of the members present.
2. Committee Purpose. The purpose of the Committee is to receive and review, as necessary, certain financial information of the Minnesota Housing Finance Agency (“Agency”) and, when necessary, recommend action by the members of the Board as a whole. The Committee is responsible for overseeing the Agency’s accounting and financial reporting processes, the audit of the Agency’s annual financial statements, and the overall approach to risk management and internal controls. Some of the Committee’s responsibilities may be delegated in writing to Agency staff, as appropriate. The Committee shall meet as needed to address matters. The Committee shall have access to financial expertise, whether in the form of Agency staff or outside financial advisors or auditors. It may ask others to attend its meetings and provide pertinent information as necessary.

3. Committee Responsibilities The Committee shall perform the following duties unless they are performed directly by the Board:
- a) Recommend to the Board the selection and replacement of any financial advisor, investment banker, and publicly registered public accounting firm (independent auditor) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Board.
 - b) As necessary, meet with the financial advisor, investment bankers, independent auditor, and other Agency staff, review Agency financial reports, evaluate or receive evaluations of the performance of the financial advisor, the investment bankers or the independent financial auditor, and receive reports on the sale and issuance of bonds
 - c) Oversight of agency risk and internal controls, including consultation with senior management and the Chief Risk Officer
 - d) Review, at least annually, with the independent auditor, and Agency staff:
 1. The independent auditor's plan for the financial audit, and scope thereof
 2. The independent auditor's report on the Agency's annual financial statements and related footnotes.
 3. The independent auditor's report on the Agency's Federal Program single audit.
 4. The independent auditor's required communications, including reporting on significant accounting areas and estimates
 5. The independent auditor's report on internal controls and governmental audit standards including, as necessary, any assessment or report related to the Agency's computerized information system controls and security.
 6. Any other matters the independent auditor chooses to bring to the attention of the Committee
 - e) Review, at least annually, with Agency staff :
 1. The Agency's Risk Management and Internal Control Framework.
 2. Agency compliance with the Risk Management and Internal Control Framework including, but not limited to:
 - Code of conduct, ethics, and conflict of interest.
 - Procedures for the receipt, retention and treatment of reports of wrongdoing or other concerns received, and reporting on investigative activities and resolutions, if any
 - Risk assessments and other internal control reviews, including the Agency Risk Profile, Annual Internal Control System Certification, and program/business process risk assessment projects.
 - f) Make reports and recommendations, as necessary, to the Board.
 - g) Perform such other functions as assigned by the Board.
 - h) The Committee may create subcommittees as necessary.

Adopted this 27th day of August, 2020

CHAIRMAN

This page intentionally left blank.

Item: Approval, Revisions to the Rehabilitation Loan Program Procedural Manual

Staff Contact(s):

Tonya Taylor, 651.296.8844, Tonya.taylor@state.mn.us

Noemi Arocho, 651.296.7994, Noemi.aroch@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

Staff requests approval of the revised Rehabilitation Loan Program Procedural Manual.

Fiscal Impact:

None. The Rehabilitation Loan Program is funded by Agency resources and state appropriations that do not earn interest for the Agency.

Meeting Agency Priorities: select all that apply

- ☐ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☒ Strengthen Communities

Attachment(s):

- Background
- Rehabilitation Loan Program Procedural Manual

Background

The Rehabilitation Loan Program (RLP) was created to complement loan programs available in the private sector, in order to fill the financial gap that exists between low-income homeowners who are able to secure traditional financing for home improvements and those unable to do so.

The Rehabilitation Loan Program provides zero percent, deferred loans to owner-occupant households at or below 30 percent area medium income (AMI) to address health, safety and habitability issues in the home.

Changes to the Rehabilitation Loan Program Procedural Manual

Staff revised the Rehabilitation Loan Program Procedural Manual to implement new policies and clarify existing procedures and language. Many of the recommended policies and clarifications were informed by feedback received by lenders and a lender survey conducted in spring 2020. The recommended changes streamline procedures (e.g., remove prior approval for certain processes, etc.), improve implementation of rehabilitation (e.g., change contractor bidding requirements, etc.), and enable more homeowners to access the program (e.g., remove hazard insurance requirement, etc.). Other changes are recommended to make the RLP Procedural Manual consistent with other Agency program procedural manuals (e.g., change “Seller” to “Lender,” etc.). Below is a summary of the substantive revisions to the Rehabilitation Loan Program Procedural Manual.

- Chapter 1: Partner Responsibilities/Warranties
 - Clarifies unauthorized compensation and documentation of compensation;
 - Provides additional information regarding due diligence and audit requirements;
 - Revises lender representations and warranties; and
 - Clarifies lender and borrower roles in the selection of contractors.
- Chapter 2: Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting
 - Revises language on fraud and suspension;
 - Adds sections on misuse of funds, conflicts of interest, and disclosure and reporting; and
 - Removes section on fair housing, which is already included in the Representations and warranties section.
- Chapter 3: Borrower Eligibility Requirements
 - Clarifies ownership interest requirements; and
 - Revises language on income requirements, although income requirements remain the same.
- Chapter 4: Property Eligibility Requirements
 - Revises lead-based paint requirements to be consistent with the Lead-Based Paint Guide for Applicable Single Family Programs that was approved by the Board of Directors in May 2020
- Chapter 5: Loan/Rehabilitation Eligibility
 - Clarifies procedural requirements for loan security;
 - Removes the hazard insurance requirement to enable low-income homeowners who lack hazard insurance to access the program;

- Revises the contractor bid requirements from solicitation of three bids to two bids due to the lack of contractors in certain areas, particularly in Greater Minnesota;
 - Revises procedure for change orders to remove prior approval from Minnesota Housing staff for changes to the rehabilitation scope of work to streamline rehabilitation work;
 - Revises procedure for eligible rehabilitations to remove prior approval from Minnesota Housing staff for certain types of rehabilitation to streamline rehabilitation work; and
 - Adds repayment of fees paid to lender if a lender is required to repurchase a loan.
- Chapter 6: Commitment/Disbursement
 - Clarifies loan commitment procedure, including approval of extensions to loan commitments;
 - Removes transfer of commitment procedure because, if necessary, lenders should cancel loans and borrowers should apply for new loans through other lenders rather than transferring loans between lenders; and
 - Removes duplicate funding requests because lenders may commit new loans for borrowers whose previous loan commitments were canceled.
- Chapter 7: Document and Reporting Requirements
 - Removes requirement to report on the status of loan applications because Minnesota Housing is not the lender;
 - Clarifies documentation of canceled loan commitments; and
 - Revises records retention language to provide additional details on requirements, including what documents need to be retained.
- Chapter 8: Servicing
 - Clarifies the procedure for servicing, delivery of loans to the servicer, and subordinations.
- Appendix A: Definitions
 - Updates definitions to reflect changes to the RLP Procedural Manual.

Effective Date

Following board approval, the proposed new Rehabilitation Loan Program Procedural Manual will go into effect September 1, 2020.



Rehabilitation Loan Program Procedural Manual

~~February 12, 2019~~

September 1, 2020~~August 5, 2020~~



The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, gender identity, creed, national origin, sex, religion, marital status, status with regard to public assistance, disability, familial status, or sexual orientation in the provision of services.

An equal opportunity employer.

This information will be made available in alternative format upon request.

Table of Contents

Introduction.....	1
<i>Mission Statement</i>	<i>1</i>
<i>Background.....</i>	<i>1</i>
<i>Procedural Manual</i>	<i>1</i>
<i>Rehabilitation Loan Program</i>	<i>1</i>
Chapter 1 – Partner Responsibilities/Warranties	2
1.01 <i>Procedural Manual</i>	<i>2</i>
1.02 <i>Compliance with Privacy Act Statutes</i>	<i>2</i>
1.03 <i>Unauthorized Compensation</i>	<i>3</i>
1.04 <i>Minnesota Housing Due Diligence Audit Guidelines and Requirements.....</i>	<i>3</i>
1.05 <i>Termination of the Lender’s Participation</i>	<i>3</i>
1.06 <i>Representations and Warranties.....</i>	<i>4</i>
1.07 <i>Lender Compensation</i>	<i>6</i>
1.08 <i>Selection of Contractors.....</i>	<i>7</i>
Chapter 2 – Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting	8
2.01 <i>Fraud.....</i>	<i>8</i>
2.02 <i>Misuse of Funds</i>	<i>8</i>
2.03 <i>Conflict of Interest</i>	<i>8</i>
2.04 <i>Suspension</i>	<i>9</i>
2.05 <i>Disclosure and Reporting</i>	<i>10</i>
Chapter 3 - Borrower Eligibility Requirements	11
3.01 <i>Borrower.....</i>	<i>11</i>
3.02 <i>Borrower Age.....</i>	<i>11</i>
3.03 <i>Co-Signers</i>	<i>11</i>
3.04 <i>Ownership Interest</i>	<i>11</i>
3.05 <i>Occupancy Requirements</i>	<i>12</i>
3.06 <i>Rehabilitation Loan Program Application.....</i>	<i>12</i>
3.07 <i>Prior Minnesota Housing Assistance</i>	<i>12</i>
3.08 <i>Rehabilitation Loan Program Eligibility Income.....</i>	<i>12</i>
3.09 <i>Minnesota Housing Maximum Asset Limit</i>	<i>13</i>
3.10 <i>Credit Requirements</i>	<i>15</i>
3.11 <i>Separated Spouses.....</i>	<i>15</i>
3.12 <i>Loans to the Lender’s Employees and Affiliated Parties</i>	<i>15</i>

Chapter 4 - Property Eligibility Requirements16

4.01	<i>Eligible Properties</i>	16
4.02	<i>Ineligible Properties</i>	16
4.03	<i>Property Inspections</i>	16
4.04	<i>Local Ordinances and Plans</i>	17

Chapter 5 – Loan/Rehabilitation Eligibility.....18

5.01	<i>Loan Eligibility</i>	18
5.02	<i>Interest Rate/Amortization Requirements</i>	18
5.03	<i>Program Loan Amounts</i>	18
5.04	<i>Mortgage Term</i>	18
5.05	<i>Security for the Loan</i>	18
5.06	<i>Title Evidence Requirements</i>	19
5.07	<i>Rehabilitation Improvement Requirements, Code Compliance, and Rehabilitation Standard</i>	19
5.08	<i>Change Orders</i>	20
5.09	<i>Sworn Construction Statement and Lien Waivers</i>	21
5.10	<i>Homeowner Labor</i>	21
5.11	<i>Eligible Rehabilitation Improvements</i>	21
5.12	<i>Ineligible Rehabilitation Improvements</i>	23
5.13	<i>Non-Complying Loans</i>	23
5.14	<i>Repurchase of Loans</i>	24

Chapter 6 – Commitment/Disbursement25

6.01	<i>Loan Commitments</i>	25
6.02	<i>Modifying a Commitment</i>	25
6.03	<i>Canceling a Commitment</i>	25
6.04	<i>Minnesota Housing Disbursement of Funds</i>	27
6.05	<i>Loan Purchase Corrections</i>	27

Chapter 7 – Documentation and Reporting Requirements28

7.01	<i>Loan Processing and Closing</i>	28
7.02	<i>Loan Modification and Loan Corrections</i>	28
7.03	<i>Minnesota Housing Documentation/Delivery Requirements</i>	28
7.04	<i>Reporting Requirements</i>	29
7.05	<i>Records Retention</i>	29

Chapter 8 – Servicing.....31

8.01	<i>Servicing</i>	31
8.02	<i>Delivery of Loans to Servicer</i>	31

8.03 Subordinations.....31

Appendix A: Definitions32

Appendix B: Forms List.....34

Introduction

Mission Statement

Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance housing that is affordable ~~housing~~.

Background

Minnesota Housing Finance Agency (“Minnesota Housing”) was created in 1971 by the Minnesota Legislature.

Minnesota Housing created the Rehabilitation Loan Program (the “Program”) to compliment loan programs available in the private sector to fill the financial gap that ~~existed~~exists between low-income homeowners able to secure home improvement financing in the private sector and those homeowners unable to do so.

Procedural Manual

This Procedural Manual sets forth for ~~Sellers~~the Lenders the terms and conditions under which Minnesota Housing will purchase mortgage loans originated under the Program.

Rehabilitation Loan Program

Deferred, zero percent interest rate Program loans are available to low-income Minnesota homeowners through participating ~~Sellers~~Lenders. Loans must be for improvements that directly affect the safety,¹ habitability² livability, or energy efficiency³ of the home. Existing residential housing is inspected using Minnesota Housing’s Single Family Rehabilitation Standard (“Rehabilitation Standard” see Appendix B). Deficiencies cited in any property inspection under the Rehabilitation Standard must be prioritized and cured as funding allows. Homeowners requiring assistance of an emergency nature will be referred to the Minnesota Housing Emergency and Accessibility Loan Program.

¹ Rehabilitation improvements which address conditions in the home that can cause danger or risk of injury.

² Rehabilitation improvements which address basic needs and are of average/median grade or quality.

³ Rehabilitation improvements which reduce overall energy use while providing the same or a higher level of performance, comfort and convenience.

Chapter 1 – Partner Responsibilities/Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Rehabilitation Loan Program Participation Agreement (the “Participation Agreement”) executed between the Seller Lender and Minnesota Housing.

Minnesota Housing reserves the right to:

- Change the Program interest rate at any time under its sole discretion;
- Alter or waive any of the requirements;
- Impose other and additional requirements; and
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

Minnesota Housing is under no obligation to purchase any loan or retain ownership of a loan that does not comply fully with this Procedural Manual. Minnesota Housing ~~grants~~may grant waivers, alterations or revisions at its sole discretion.

~~1.02 Evidence of Misconduct Referred to Attorney General~~

- ~~• Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of the Program to the Minnesota Attorney General’s Office for appropriate legal action.~~
- ~~• If, after a loan is made, a Seller discovers any material misstatements or misuse of the proceeds of the loan by the Borrower or others, the Seller must promptly report such discovery to Minnesota Housing.~~
- ~~• Minnesota Housing may exercise all remedies available to it, both legal and equitable, to recover funds from the Seller and/or the Borrower. This includes loan funds, together with all applicable fees or commissions received by the Seller in connection with the loan and all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the loan or recovery of loan proceeds.~~

~~1.03~~ 1.02 Compliance with Privacy Act Statutes

The Minnesota Government Data Practices Act:

- Requires the Seller Lender to supply Borrowers with the Tennessee Warning and the Privacy Act Notice (Appendix B) when requesting private data;⁴ and
- Governs when the disclosure of the Borrower’s Social Security Number is required.

The Minnesota Revenue Recapture Act of 1980 (Minnesota Statutes Sections 270A.01 to 270A.12) allows the disclosure of the Borrower’s Social Security Number or Minnesota Tax Identification Number to the Minnesota Department of Revenue. This could result in the

⁴ Only the Borrower’s name, address and amount of assistance received are public data and may be released to the public. All other data are private and may be released only to those authorized access by law.

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

application of funds held by the State, including but not limited to tax refunds to the payment of any delinquent indebtedness of the Borrower to Minnesota Housing.

1.0403 Unauthorized Compensation

~~Seller~~The Lender may receive fees approved in this Procedural Manual. However, ~~Seller~~the Lender shall not receive or demand from builder, remodeler, contractor, supplier, or Borrower:

- Kickbacks;
- Commissions;
- Rebates; or
- Other compensation.

In order to reduce the total rehabilitation cost associated with an eligible property, ~~a Seller~~the Lender may receive discounts⁵ from third parties involved in the project improvements. In these cases, the Lender must document in the Borrower file that the discounts received are considered typical for the market area and do not constitute a kickback, commission, rebate or compensation for products or services rendered. Any discounts that exceed what is typical must be documented as a charitable contribution by the representative of the seller, builder, remodeler, contractor, or supplier providing the discount.

1.0504 Minnesota Housing Due Diligence Audit Guidelines and Requirements

The ~~Seller~~Lender is required to keep on file a complete copy of documents for each loan originated for purchase by Minnesota Housing. ~~A loan file may be requested to be made available to Minnesota Housing at the Seller's office during regular business hours or forwarded to Minnesota Housing for review.~~Minnesota Housing will perform a quality control audit of loan files purchased from the Lender and will notify the Lender if a loan is selected for audit. Upon request, the Lender must submit a complete loan package with all documentation that was used to originate and close the loan. Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased.

Audited loans are reviewed for:

- Minnesota Housing Program/policy compliance;
- Compliance with federal and state consumer lending regulations;
- Fraud or misrepresentation on the part of any party involved in the transaction; and
- Trends and/or other indicators that may have an impact on the financial viability of the Program in part or in whole.

1.0605 Termination of ~~Seller~~The Lender's Participation

⁵ ~~Discounts must be considered normal and do not constitute a kickback, commission, rebate or compensation to the Seller for services or products rendered.~~

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

Minnesota Housing may terminate the participation of any ~~Seller~~ Lender under this Procedural Manual at any time and may preclude ~~Seller's~~ the Lender's future eligibility for reasons including, but not limited to, nonconformance with:

- This Procedural Manual;
- The Participation Agreement;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- Any federal or state laws or acts that protect the Borrower's rights with regard to obtaining financing for home improvements; and
- Other applicable state and federal laws, rules, and regulations.

Upon termination of a ~~Seller's~~ the Lender's Participation Agreement, Minnesota Housing will continue to purchase eligible loans for which a Commitment has already been issued, until the Commitment expiration date.

Minnesota Housing may, at its option, impose remedies other than termination of the Participation Agreement for ~~Seller's~~ the Lender's nonperformance.

~~Seller~~ The Lender may request reinstatement into Minnesota Housing programs. The decision whether or not to reinstate a ~~Seller~~ the Lender shall be at Minnesota Housing's sole discretion.

1.0706 Representations and Warranties

The ~~Seller~~ Lender agrees to comply with all applicable federal, state, and local laws, ordinances, regulations and orders including, but not limited to, the following (and any applicable rules, regulations, or laws thereunder):

- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act;
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968);
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Data Privacy - Minnesota Statutes Chapter 13;
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- Americans with Disabilities Act, 42 U.S.C.A. Section 12101;
- Fair and Accurate Credit Transactions Act;
- Truth in Lending Act;
- Home Mortgage Disclosure Act;
- Anti-Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy;

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ [SEPTEMBER 1, 2020](#)

- Internal Revenue Code of 1986, Section 6050H; and
- Real Estate Settlement Procedures Act of 1974.

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

In addition to the above warranties and representations, ~~Seller~~the Lender also warrants and represents that:

- ~~Seller~~The Lender will comply with the Minnesota Housing Lead Based Paint Guidebook, found on the Minnesota Housing website;
- ~~Seller~~The Lender is the sole owner and holder of the Program loan with the right to assign it to Minnesota Housing;
- ~~Seller~~The Lender has assigned the loan free and clear of all encumbrances;
- ~~Seller~~The Lender has complied and will continue to comply with all terms and conditions in the Participation Agreement and this Procedural Manual for each loan processed unless prior written approval is obtained from Minnesota Housing;
- ~~Seller~~The Lender is a legally constituted public or governmental agency, political subdivision, nonprofit entity ~~as defined by Minnesota Housing~~, a housing and redevelopment authority, or other organization ~~designated by Minnesota Housing~~, which has as a primary purpose, the provision or development of affordable housing to low-income persons or households in Minnesota;
- ~~Seller~~The Lender maintains capital and trained personnel adequate to render the services required as a part of the Seller's Lender's participation in the Program;
- ~~Seller maintains adequate insurance on its employees in the form of a Fidelity and Forgery Bond and can supply written proof of this coverage to Minnesota Housing;~~
- ~~Seller tracks all applicants to document compliance with federal Fair Housing and documents reasons for loan denial for future Program evaluation;~~
- ~~On the date each loan was closed:~~
- ~~Seller~~The Lender follows all state and federal consumer lending laws, rules and regulations;
- The Lender has neither received nor solicited any fee or remuneration not approved by this Procedural Manual;
- After reasonable inspection, the ~~Seller~~Lender has no knowledge that any improvement funded by the loan included in the loan is in violation of applicable zoning ordinances, building ordinances, laws or regulations; and
- ~~The Seller has closed the loan in accordance with the instructions provided in this Procedural Manual.~~

~~The Seller~~The Lender also agrees that the person who confirms on the Minnesota Housing Loan Commitment System ~~the Seller Representations and Warranties~~ on behalf of the ~~Seller~~Lender is fully conversant with Minnesota Housing Program requirements, and has the authority to legally bind the ~~Seller~~Lender; and ~~Seller~~the Lender has complied with all terms, conditions and requirements of the Participation Agreement and this Procedural Manual unless those terms, conditions and requirements have been specifically waived in writing by Minnesota Housing, ~~in writing~~.

~~1.08~~ Seller07 Lender Compensation

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

~~Minnesota Housing will provide funds to defray a portion of the expense incurred by providing Seller services, including but not limited to staff salaries, office expenses, travel expenses, counseling and technical assistance. Seller~~ The Lender is compensated for each loan purchased by Minnesota Housing at a rate of \$2,500 ~~per loan~~, plus 5% of the loan amount per loan.

~~1.09~~ 1.10 Selection of Contractors

~~Seller must permit the Borrower to~~ The Lender may not choose the contractor ~~.(s). Borrowers~~ are responsible for the selection of any contractor who will be involved in completing rehabilitation improvements on the property.

~~1.10~~ 1.11 Borrower Selection

~~Seller must establish a Borrower selection process.~~

~~1.11~~ —

Chapter 2 – Fraud-, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting

2.01 Fraud

Fraud is any intentionally deceptive action made for personal gain or to damage another. Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source, or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the ways described in Section 2.05. ~~Fraud means an intentional deception made for personal gain or to damage another.~~

~~The Seller must report all known or suspected instances of fraud in connection with the making or receipt of Program loans to Minnesota Housing's Chief Risk Officer as soon as evidence of fraud is discovered by the Seller.~~

~~1.12 — Suspension~~

2.02 Misuse of Funds

A loan and Participation Agreement are legal contracts. The borrower and the Lender must use the funds to engage in eligible uses or procure certain goods, or services when Minnesota Housing provides funds to the borrower or the Lender to pay for those eligible uses, goods, or services. Regardless of the Minnesota Housing program or funding source, the borrower or the Lender must use Minnesota Housing funds as agreed and the borrower or the Lender must maintain appropriate documentation to prove that funds were used for the intended purpose(s).

A misuse of funds shall be deemed to have occurred when: (1) Minnesota Housing funds are not used as agreed by a borrower or the Lender; or (2) A borrower or the Lender cannot provide adequate documentation to establish that Minnesota Housing funds were used in accordance with the terms and conditions of the loan or Participation Agreement.

Any borrower or Lender (including its employees and affiliates) of Minnesota Housing funds that discovers evidence, receives a report from another source, or has other reasonable basis to suspect that a misuse of funds has occurred must immediately make a report through one of the ways described in Section 2.05.

2.03 Conflict of Interest

A conflict of interest, actual, potential, or perceived, occurs when a person has an actual or apparent duty or loyalty to more than one organization and the competing duties or loyalties may result in actions which are adverse to one or both parties. A potential or perceived conflict of interest exists even if no unethical, improper or illegal act results from it.

An individual conflict of interest is any situation in which one's judgment, actions or non-action could be interpreted to be influenced by something that would benefit them directly or through

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

indirect gain to a friend, relative, acquaintance or business or organization with which they are involved.

Organizational conflicts of interest occur when:

- A contracting party is unable or potentially unable to render impartial assistance or advice to Minnesota Housing due to competing duties or loyalties;
- A contracting party's objectivity in carrying out their responsibilities might be otherwise impaired due to competing duties or loyalties; and/or
- A contracting party has an unfair competitive advantage through being furnished unauthorized proprietary information or source selection information that is not available to all competitors.

Once made aware of a conflict of interest, Minnesota Housing will make a determination before disbursing any further funds or processing an award. Determinations could include:

- Revising the contracting party's responsibilities to mitigate the conflict;
- Allowing the contracting party to create firewalls that mitigate the conflict;
- Asking the contracting party to submit an organizational conflict of interest mitigation plan; or
- Terminating the contracting party's participation

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all actual, perceived, or potential conflicts of interest through one of the ways described in Section 2.05.

A contracting party should review its contract agreement and Request for Proposals (RFP) material, if applicable, for further requirements.

2.04 Suspension

By entering into any agreement with Minnesota Housing, contracting party (including its employees or affiliates that will have direct control over the subject of the agreement) represents that it has not been suspended from doing business with Minnesota Housing. Please refer to Minnesota Housing's website for a list of suspended individuals and organizations.~~accepting any award of funds from Minnesota Housing, or otherwise conducting any business with Minnesota Housing, the Seller represents that the Seller, or any principal of the Seller, has not been suspended from doing business with Minnesota Housing pursuant to the Minnesota Housing Finance Agency Board of Directors Participant Suspension Policy. A principal is defined as: (a) an officer, director, owner, partner, principal investigator, or other person within an organization or entity doing business with Minnesota Housing with management or supervisory responsibilities; or (b) a consultant or other person, who: (1) is in a position to handle Minnesota Housing funds; (2) is in a position to influence or control the use of those funds; or (3) occupies a technical or professional position capable of substantially influencing the development or outcome of an activity required to be performed under~~

~~JULY 1, 2018~~SEPTEMBER 1, 2020

~~contract with Minnesota Housing. The Seller must contact Minnesota Housing for a list of all suspended individuals and organizations.~~

~~1.13 Fair Housing~~

~~It is the policy of Minnesota Housing to affirmatively further fair housing in all its programs so that individuals of similar income levels have equal access to Minnesota Housing programs, regardless of race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, disability, familial status, gender identity or sexual orientation.~~

~~Minnesota Housing's fair housing policy incorporates the requirements of the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendment Act of 1988, as well as the Minnesota Human Rights Act. Housing providers are expected to comply with the applicable statutes, regulations, and related policy guidance.~~

2.05 Disclosure and Reporting

Minnesota Housing promotes a “speak-up, see something, say something” culture whereby internal staff, external business partners (e.g., the Lenders, borrowers) and the general public are encouraged to report instances of fraud, misuse of funds, conflicts of interest, or other concerns without fear of retaliation. You may report wrongdoing or other concerns by contacting:

- Minnesota Housing’s Chief Risk Officer
- Any member of Minnesota Housing’s Servant Leadership Team
- EthicsPoint, the Minnesota Housing hotline reporting service vendor

Chapter **23** - Borrower Eligibility Requirements

23.01 Borrower

One individual or multiple individuals are eligible to be a Borrower(s) only if such individual or individuals meet the requirements of this Procedural Manual.

23.02 Borrower Age

Borrower must be eighteen (18) years of age or older or have been declared emancipated by a court having jurisdiction.

23.03 Co-Signers

Co-signers are not permitted on Program loans. ~~All Borrowers must occupy the property as their Principal Residence.~~

23.04 Ownership Interest

~~The~~ For residences taxed as real property, the Borrower(s) must individually, or in the aggregate, possess at least a one-third ownership interest in the residence to be improved. ~~Except that if~~ For a Manufactured Home ~~is to be rehabilitated and it is~~ taxed as personal property, the Borrower(s) ownership interest requirement is 100%.

The Borrower(s) and Accommodation Parties, individually or in the aggregate, must have 100% ownership interest in the residence to be improved.

Borrowers under this Program must have clear title to the subject property as outlined in Section 45.06 of this Procedural Manual.

Eligible forms of ownership interest include the following:

- A fee simple estate;
- A community land trust;
- Vendee interest in a recorded contract-for-deed⁶;
- A manufactured home taxed as real property; or
- A Manufactured Home taxed as personal property and located in a Manufactured Home park.

Title may be held as follows:

- Individually;
- Joint Tenants;
- Tenants in common; or
- ~~Tenancy by the entirety;~~
- ~~Vendee interest in a recorded contract for deed;⁷ or~~

⁶ Borrower must get prior approval from contract for deed vendor. Vendor will be required to sign the Mortgage as an Accommodation Party.

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

- A recorded life estate, excluding remaindermen⁸

Ineligible forms of ownership interest include but are not limited to the following:

- Shares in a Cooperative Corporation;
- Ownership by any form of trust; and
- Ownership subject to a reverse mortgage.

23.05 Occupancy Requirements

Borrower must have owned and occupied the property as his/her Principal Residence for at least 6 months prior to applying for the Program loan. Further, the Borrower must ~~continue to own and regularly maintain ownership and title to the property and~~ reside in the property as his/her Principal Residence during the term of the loan.

23.06 Rehabilitation Loan Program Application

To be considered for Program funds, Borrowers must:

- Apply for the Program through an approved ~~Sellers~~ Lender using the Minnesota Housing Borrower Application, and
- As a prerequisite to application, Borrowers must have applied to and documented their eligibility for the Weatherization Program through the Minnesota Department of Commerce, or
- Have been added to a waitlist for Weatherization Program funds.

Rehabilitation loans shall be made only when the agency Lender determines that financing is not otherwise available, in whole or in part, from private lenders upon equivalent terms and conditions.

23.07 Prior Minnesota Housing Assistance

A Borrower who has previously received financing through the Program is ineligible to receive further financing through this Program for five years (from the loan closing date) thereafter with exceptions for emergency situations as determined in the sole discretion of Minnesota Housing.

23.08 Rehabilitation Loan Program Eligibility Income

Gross annual household income includes but is not limited to the gross annual projected household income of all residents age 18 and over ~~of that reside in the Borrower's household, from whatever source derived (with the exception of incidental income from after school employment of persons under 18 year of age)~~ and before taxes or withholdings – less deductible medical expenses allowed. Incidental income from after school employment of persons under 18 years of age does not need to be included. (See Income Eligibility Calculation

⁷ ~~Borrower must get prior approval from contract for deed vendor. Vendor will be required to sign the Mortgage as an Accommodation Party.~~

⁸ Remainderman will be required to sign the Mortgage as an Accommodation Party.

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

Worksheet). The maximum gross household income may not exceed the amounts listed on Minnesota Housing's website.

Gross annual projected household income includes:

- Salary, commissions, bonuses, tips, and earnings from full-time, part-time and seasonal employment, including sick pay;
- Interest, dividends, and gains on sale of securities;
- Annuities, pensions, and royalties;
- Veterans Administration compensation /benefits;—public assistance, social security benefits, unemployment compensation, and sick pay;
- Public assistance;
- Social Security benefits;
- Unemployment Insurance;
- Net rental income;
- Net income received from business activities (see Income Eligibility Calculation Worksheet);
- Alimony and child support;
- Estate or trust income;
- ~~Seasonal employment income;~~
- Ongoing educational grants; and
- Contract-for-deed income after deducting principal, interest, taxes and insurance paid on outstanding debt against the property. (Deductions may not exceed the contract-for-deed income.)

If a Borrower's gross annual income is zero or a negative amount, the Borrower is ineligible for financing.

Gross Documentation of the Borrower's gross annual household income must be verified within dated no more than 3 months ~~of before~~ the loan ~~Commitment~~ commitment is obtained via the Loan Commitment System

23.09 Minnesota Housing Maximum Asset Limit

The total assets of all residents in the household may not exceed \$25,000 after deducting any outstanding indebtedness pertaining to the assets. Assets include, but are not limited to, the following:

- Cash on hand or in checking or savings accounts;
- Securities or United States Savings Bonds;
- Market value of all interests in real estate, exclusive of the structure to be improved and a parcel of real property of not more than two contiguous platted lots or 160 continuous acres on which such structure is located;
- Cash value of life insurance policies;
- Recreational vehicles such as golf carts, snowmobiles, boats, or motorcycles;

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ [SEPTEMBER 1, 2020](#)

- All land in which any resident of the household holds title and is selling on a contract-for-deed. Value in this case is defined as the outstanding principal balance expected to exist on the contract one year from the date of application;
- Life estate value on a property other than the subject property; and
- All other property, excluding household furnishings, clothing, and one automobile, and real estate, equipment, supplies, and inventory used in a business.

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

23.10 Credit Requirements

- Borrowers must be unable to obtain financing under equivalent terms elsewhere.
- Credit reports are not required by Minnesota Housing.
- Borrower must be current on all property tax payments at the time of application
- Combined loan amounts of all loans secured by the subject property cannot exceed 110 percent of the property value at the time of loan closing.
 - The 110 percent combined loan to value requirement does not apply to:
 - Accessibility improvements; and
 - Manufactured Homes taxed as personal property.
- Borrowers must be current on all mortgage loan payments at the time of application. Examples of documentation for verifying payments include, but are not limited to:
 - A verification of current mortgage payment status from the loan servicer; and
 - A mortgage statement citing the loan servicer's name and address, the most recent payment made, the date and amount of the next payment due and any past due amounts, and/or any unpaid fees.

23.11 Separated Spouses

When the ~~Seller~~ Lender establishes that a spouse permanently resides outside of the household, that separated spouse may be excluded from signing the Rehabilitation loan application and note, but must sign the mortgage.

Examples of separated spouse documentation include:

- Legal separation documentation;
- Proof of initiated divorce proceedings; and
- Verification of separate Principal Residence and absence of joint accounts.

23.12 Loans to the Lender's Employees and Affiliated Parties

~~Seller~~ The Lender may make Minnesota Housing loans to their directors, officers, agents, consultants, employees and/or their families, elected or appointed officials of the State of Minnesota as well as to Minnesota Housing employees and/or their families who are not in a position to participate in a decision making process or gain inside information with regard to the loan; and do not result in a conflict of interest as outlined in Section 2.03. The Borrower must meet all eligibility criteria for the Program.

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

Chapter ~~34~~ - Property Eligibility Requirements

~~34.01~~ Eligible Properties

Properties eligible for a loan must be located in the State of Minnesota and include any of the following property types:

- A single family detached home;
- A duplex;⁹
- An eligible one-unit dwelling in an eligible planned unit development (PUD);
- A condominium unit;¹⁰
- A townhome;¹¹ and
- Certain -Manufactured Homes that meet the requirements outlined in ~~Chapter 2,~~ Section ~~23.04.~~

~~34.02~~ Ineligible Properties

Properties ineligible for a loan include but are not limited to:

- Properties containing three or more units;
- Properties intended for use as an investment property (except the rental of a second unit in a duplex);
- Properties intended for recreational use; and
- Properties primarily used for business (more than 50% of the floor space is used for business).

~~34.03~~ Property Inspections

~~Seller~~The Lender must conduct inspections of the property as follows:

- The first inspection must be made using the Rehabilitation ~~Standard~~Standards (Appendix B) in order to determine the property's deficiencies without regard to lead-based paint hazards. The results of the inspection are used to prepare the initial scope of work.
- ~~Seller~~If required, the Lender must arrange for a certified risk assessor to perform a lead-based paint risk assessment ~~for all properties constructed prior to 1978 in order.~~ See the Lead-Based Paint Guide for Applicable Single Family Programs to determine ~~the presence of whether a~~ lead-based paint ~~hazards.~~ Lead risk assessment is required. If required per the Lead-Based Paint Guide for Applicable Single Family Programs, lead-based paint hazard reduction should ~~then~~ be added to the scope of work.
- Additional inspections should demonstrate that construction has been completed according to the scope of work, that the quality of the work is satisfactory and that, if applicable, no soil-lead hazards or settled dust exists in the property ~~has passed the~~

⁹ The Borrower must occupy one unit of a duplex property. Any improvements that benefit only the rental unit of a duplex must have prior written approval by Minnesota Housing ~~as part of the Commitment process.~~

¹⁰ If the property is a condominium ~~or townhome~~, only the portion of the real estate owned by the Borrower is eligible for financing under this Program. The common areas owned by the association are not eligible.

¹¹ If the property is a ~~condominium or~~ townhome, only the portion of the real estate owned by the Borrower is eligible for financing under this Program. The common areas owned by the association are not eligible.

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

~~lead-based paint clearance test. Seller.~~ The Lender may conduct additional inspections as work is completed.

Minnesota Housing reserves the right to inspect properties during any stage of the rehabilitation process with reasonable notice.

34.04 Local Ordinances and Plans

Property improvements must conform to all applicable zoning ordinances and all appropriate ~~use~~ permits must be obtained.

Chapter 45 – Loan/Rehabilitation Eligibility

45.01 Loan Eligibility

Minnesota Housing purchases closed loans from ~~Seller~~the Lenders if the loan satisfies all the requirements of this Procedural Manual.

45.02 Interest Rate/Amortization Requirements

Generally, loans under this Procedural Manual are interest-free, deferred loans which are forgiven at the end of the loan term. However, if the Borrower sells, transfers title or ceases to occupy the property as his/her Principal Residence during the loan term, the loan will become due and payable.

45.03 Program Loan Amounts

- The minimum loan amount is \$1,000.
- ~~Overall~~The maximum loan amount may not exceed \$27,000 and may include the costs of required radon tests, pre-rehabilitation energy audits, post-rehabilitation blower-door tests, lead-based paint inspection, lead-based paint risk assessment and lead-based paint clearance reports.
- Recording fees, mortgage registration tax and title search costs may be collected from the Borrower ~~and/or~~ may be included in the loan amount as long as Program loan amount ~~maximums are~~maximum is not exceeded. No other fees may be charged to the borrower.

45.04 Mortgage Term

Prior to the expiration of the applicable periods indicated below, all loans are due on sale, transfer of title, or if the property ceases to be the Borrower's Principal Residence. ~~See Section 7.03 of this Procedural Manual.~~

- The loan term for properties taxed as real estate is 15 years.
- The loan term for Manufactured Homes:
 - Taxed as real property is 15 years; and
 - Taxed as personal property and located within a Manufactured Home park is 10 years.

45.05 Security for the Loan

- All loans for properties taxed as real estate ~~will~~must be secured with a mortgage which must be recorded ~~as soon as possible~~within 15 days after the date of closing. ~~Seller~~The Lender may not wait to record the mortgage until after the rehabilitation is completed to accommodate changes in the loan amount.
- All interests in the Note and Mortgage must be assigned to Minnesota Housing when the loan is purchased and funded by Minnesota Housing.

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

- Loans ~~made in conjunction with~~for a Manufactured Home, taxed as personal property and located within a Manufactured Home park ~~will~~must be secured with a lien against the title to the Manufactured Home.
- In the event there are changes in the loan amount, the ~~Seller~~ Lender must follow the Change Order requirements in Section ~~4.09~~5.08.

45.06 Title Evidence Requirements~~Seller~~The Lender is required to verify:

- The legal description of the subject property;
- The Borrower's ownership interest, by ~~submitting a copy of the deed and~~ conducting a title investigation:
 - Through documented contact with the County Recorder's Office/Registrar of Titles; or
 - Via an Owners and Encumbrances report; and
- Existing liens, if any, on the property.

~~**4.07 Hazard Insurance Requirements**~~~~All properties must be covered by hazard insurance which meets at a minimum the following requirements:~~

- ~~Insurance must be in effect on the date of the mortgage;~~
- ~~Level of Coverage: Hazard insurance must be provided in an amount sufficient to cover all lien amounts or 100% of the insurable value and protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement and should be of the type that provides for claims to be settled on a replacement cost basis; and~~
- ~~Mortgage Clause: All insurance policies must contain a 'standard' or 'union' mortgage clause in the form customarily used. The mortgage clause should read "Minnesota Housing Finance Agency."~~

4.085.07 Rehabilitation Improvement Requirements, Code Compliance, and Rehabilitation Standard

- Each rehabilitation improvement must be a permanent general improvement made in compliance with all applicable state, county and municipal health, housing, building, fire prevention and housing maintenance codes or other public standards.
- Prior to rehabilitation, properties must be inspected to the Rehabilitation Standard (Appendix B) to determine any deficiencies.
- ~~If the property was constructed prior to 1978, the property must be rehabilitated per the Minnesota Housing Lead Based Paint Guidebook.~~
- ~~If the property was constructed prior to 1978 and rehabilitation improvements will disturb painted surfaces above De Minimis Levels, contractors will be required to follow Lead Safe Work Practices.~~

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

- ~~On a case by case basis, and at Minnesota Housing's sole discretion, relocation expenses due to lead-based paint hazard reduction activity may be permitted.~~
- Rehabilitation must comply with the Lead-Based Paint Guide for Applicable Single Family Programs.
- All rehabilitation improvements must be outlined prioritized in a written scope of work and must correlate to the deficiencies identified during the Rehabilitation Standard (Appendix B) inspection and ~~include~~includes all applicable lead-based paint hazard reduction activities ~~required by the lead-based paint risk assessment.~~
- At least ~~three~~two bids from Minnesota-licensed building contractors must be solicited based on the written scope of work. In general, the lowest, reasonable bid should be selected. If the lowest, reasonable bid is not selected, the ~~Seller~~ Lender and Borrower must ~~provided~~document written justification ~~and such bid must be approved at for not selecting the sole discretion of Minnesota Housing-lowest, reasonable bid.~~
- All rehabilitation improvements must be completed by contractors licensed in the State of Minnesota, except a homeowner need not be licensed when homeowner labor is involved.
- A written construction contract must be executed between the contractor and the Borrower.
- All rehabilitation improvements must comply with the Minnesota Overlay and Guide to the 2015 Enterprise Green Communities Criteria for Rehabilitation requirements (see Resources section of Rehabilitation Loan Program webpage). Use of the Green Communities Scope of Work Addendum is required.
- Rehabilitation improvements to Manufactured Homes must comply with Minnesota State Building Code (Minnesota Rules Part 1350.3800) which addresses the distinction between a Construction Alteration and a Repair and the different licensing requirements attendant to each improvement.

After completion of rehabilitation, eligible properties must:

- Be free of deficiencies which will cause further damage to the home. The Rehabilitation Standard must be used as the basis for all rehabilitation work undertaken.
- Have completed rehabilitation work that is in compliance with all applicable state, county and municipal health, housing, building, fire prevention and housing maintenance codes or other public standards.
- Meet the lead-based paint requirements ~~outlined~~ in the Lead-Based Paint Guide for Applicable Single Family Programs. Minnesota Housing Lead Based Paint Guidebook for all properties constructed before 1978, utilizing the Final Affidavit of Receipt of Lead Reports, as needed.

4.095.08 Change Orders

After the loan has closed:

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

- Changes in the scope of work are not allowed unless unanticipated deficiencies are found during the rehabilitation which will cause further damage to the home if not addressed.
- ~~Changes in~~ Any changes to the scope of work, including the reason for the change, must be documented in the file. approved in writing by Minnesota Housing in advance.
- In the event that a change order occurs, post-closing modification requirements must be met.

~~Contact Minnesota Housing for documentation requirements.~~

4.105.09 Sworn Construction Statement and Lien Waivers

General contractors are required to execute a Sworn Construction Statement.

~~Sellers~~ The Lenders must obtain lien waivers for all work performed and all materials supplied by:

- The general contractor(s);
- Subcontractors; and
- Materials supplier(s).

Upon completion of rehabilitation, the ~~Seller~~ Lender and the Borrower must execute the Completion Certificate provided by Minnesota Housing. Rehabilitation must be completed within 9 months of loan ~~Commitment~~ closing unless Minnesota Housing issues a written extension.

4.115.10 Homeowner Labor

- Homeowner labor is permitted provided ~~Seller~~ the Lender is satisfied the Borrower is capable of and willing to perform the labor.
- Borrower must execute a Work Program Agreement.
- The materials list must include evidence of the actual cost of the materials required to complete the necessary improvements.
- The ~~Seller~~ Lender must perform at least one interim inspection in addition to the initial and final inspections otherwise required.
- The Borrower may not pay or be reimbursed for the cost of labor performed by the Borrower or other household residents.
- Disbursements of funds by the Borrower and to the Borrower are not permitted under this Program.

5.11 Eligible Rehabilitation Improvements

Eligible rehabilitation improvements must be directly related to the habitability or safety of the home and be of average or medium grade or quality. Eligible improvements include, but are not limited to:

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

- Accessibility-related improvements;
- Energy efficiency-related improvements;
- Lead hazard mitigation;
- Radon mitigation;
- Smoke detectors/alarms;
- CO alarms;
- Structural improvements;
- Electrical improvements;
- Plumbing improvements;
- Drainage, grading, and gutters;
- Roofing, soffits, and fascia,
- Siding;
- Windows and doors;
- Insulation;
- Furnaces and other heating systems;
- Wall and ceiling repair;
- Flooring; and
- Other improvements as approved in writing by Minnesota Housing.

The following rehabilitation improvements are eligible only under the circumstances described below. Prior written approval is not necessary to complete the improvements below if the circumstances described are met. The Lender must document in the file that the improvement was necessary due to one or more of the circumstances below. ~~with prior written approval by Minnesota Housing, and only under the circumstances described below:~~

- Replacement of kitchen cabinets or bathroom vanities when: an accessibility need exists; lead hazards cannot be addressed any other way; the repair of existing cabinets or vanities is not feasible or cost reasonable; or, existing kitchen cabinets do not allow for adequate food storage.
- Replacement of kitchen counter tops when: an accessibility need exists, the existing countertop presents a clear health or safety hazard; or there is not adequate space for food preparation.
- Replacement of decorative trim when lead hazard ~~reduction~~mitigation is required.
- Work on existing garages when: a medical or accessibility need exists; lead hazard ~~reduction~~mitigation is required; or, required by the local building code and evidence of the code violation is presented. ~~Reconstruction of existing garages is permitted on a case-by-case basis.~~
- Reconstruction of existing garages when a medical or accessibility need exists.
- Demolition of outbuildings when lead hazard ~~mitigation~~reduction is required; or, required by the local building code and evidence of the code violation is presented.
- Construction or reconstruction of sidewalks and driveways when existing conditions present a clear and imminent safety hazard. Repair is limited to the portion of sidewalks and driveways on the Borrower's property.

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

- New central air conditioner installation when a medical or accessibility need exists ~~or when an elderly household member is present.~~
- Walk-in bathtubs when a medical or accessibility need exists.

~~Seller must provide sufficient documentation for any improvement requiring approval by Minnesota Housing.~~

Home Additions are reviewed on a case by case basis and are rarely approved by Minnesota Housing. The following list details circumstances under which Minnesota Housing might approve ~~an application for~~ a Home Addition:

- An accessibility-related Home Addition when a medical/physical need exists.
- A bathroom Home Addition when the home has an inadequate bathroom.
- A kitchen Home Addition when the home's existing kitchen facilities are a health or safety hazard.
- A bedroom Home Addition when over-crowding exists. Over-crowding exists when there is an average of more than one person per room (excluding the bathroom and kitchen).

The ~~Seller~~ Lender must demonstrate that alternative remedies have been evaluated and are not feasible. However, any approval must be in writing and is at Minnesota Housing's sole discretion.

4.13

5.12 Ineligible Rehabilitation Improvements

Ineligible rehabilitation improvements include but are not limited to:

- Construction of garages (~~exceptions can be made~~ except when a medical or an accessibility need exists);
- Installation of new decorative trim; (except when replacement of existing decorative trim is necessary for lead hazard reduction);
- Hard-wired microwave ovens;
- "Luxury" improvements, which are improvements of a type exceeding that customarily used in the locality for properties of the same type as the property to be rehabilitated (swimming pool, outdoor hot tub, etc.);
- Public improvement assessments;
- Improvements that do not become a part of the real property, including but not limited to, appliances such as freestanding refrigerators and stoves; and
- Any improvements already in place.

Loan proceeds may not be used to pay off any existing debt.

4.145.13 Non-Complying Loans

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

Minnesota Housing shall have the right to take one or more of the following actions in the event ~~a Seller~~ the Lender submits a loan that does not, as determined by Minnesota Housing, comply with the requirements of this Procedural Manual:

- Adjust the purchase price of the non-complying loan;
- If not already purchased, refuse to purchase the loan;
- If already purchased, require the Seller Lender to repurchase the loan for the outstanding balance and any fees paid to the Lender;
- Terminate, suspend, or otherwise limit the Participation Agreement with Minnesota Housing; or
- Preclude the Seller Lender from future participation in Minnesota Housing programs.

4.155.14 Repurchase of Loans

Minnesota Housing at its option, may tender any loan to the Seller Lender for repurchase if:

- Any representation or warranty of the Seller Lender or the Borrower with respect to the loan is determined by Minnesota Housing to be materially incorrect; or
- The loan is not in compliance with any term or condition set forth in the Participation Agreement and this Procedural Manual.

Upon written notice of repurchase by Minnesota Housing, Seller the Lender has ten business days to submit payment to Minnesota Housing for the unpaid principal balance, fees paid to the Lender in the sale of the loan and reasonable expenses incurred by Minnesota Housing, including attorney's fees. Failure to comply with this requirement may result in the termination, suspension, further legal action or otherwise limit the Seller's Lender's Participation Agreement with Minnesota Housing.

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

Chapter 56 – Commitment/Disbursement

Minnesota Housing funds a variety of programs and initiatives and reserves the right to establish limits for any program or initiative during any business day such as:

- A maximum dollar amount ~~a Seller~~ the Lender may commit; or
- A maximum number of individual Commitments ~~a Seller~~ the Lender may commit.

~~Seller~~ The Lender commits funds on a first-come, first-served basis.

Individual Commitments are to be considered as “forward Commitments” by ~~Seller~~ the Lender. It is expected that the loan will be closed within the commitment period and delivered to Minnesota Housing for purchase. ~~submitted to gain a Purchase Approval status via the Loan Commitment System.~~

56.01 ~~Requesting a Commitment~~ Loan Commitments

In order to obtain a Commitment to reserve funds under the ~~Seller~~ Program the Lender must:

- Reserve the loan using the Loan Commitment System.
- ~~Submit all required documentation to Minnesota Housing. Once the documentation has been reviewed and approved, Minnesota Housing will issue a Commitment.~~
- Commitments are valid for 120 days. All Commitments will be automatically cancelled at day 121. Extensions are approved at Minnesota Housing’s sole discretion.
- Loans must meet eligibility requirements and gain a status of Purchase Approval via the Loan Commitment System no later than the last day a Commitment is valid.

56.02 Modifying a Commitment

- ~~In order to qualify, any change~~ Changes to a ~~Commitment~~ loan must ~~meet eligibility requirements and be submitted via~~ updated in the Loan Commitment System and will be evaluated for compliance with Program eligibility requirements.
- Any qualifying Commitment change will not alter the Commitment period originally established.
- Changes to Commitments involving the Borrower and/or the property address are not permitted.
- An increase in the loan amount will be allowed only if funds are available to accommodate the change.

~~Contact Minnesota Housing for documentation requirements.~~

56.03 Canceling a Commitment

Minnesota Housing requires the ~~Seller~~ Lender to cancel any Commitment of funds that will not be used for the specified loan.

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

~~5.04~~ **Transfer of a Commitment**

~~Seller may not transfer Commitments to another Seller without prior written approval by Minnesota Housing. Minnesota Housing may transfer a Commitment request under the following conditions:~~

~~Seller requests a transfer of Commitment in writing and documents the reason for the request;
The new Seller must be an approved participant in the Program; and
The original Seller must transfer and/or assign case documents to the new Seller.~~

~~5.05~~ **Duplicate Funding Requests**

~~Under the Program, the Seller may not cancel a Program Commitment request and subsequently request funds for the same Borrower/property.~~

~~5.06~~

6.04 Minnesota Housing Disbursement of Funds

Minnesota Housing will purchase loans that, by the daily cutoff time, have been Purchase Approved in the Loan Commitment System. One hundred percent of the loan amount plus the Seller Lender fee will be disbursed two business days after the loan has been purchased by Minnesota Housing.

~~A Seller~~The Lender Certificate with details of each purchase transaction will be available to the Seller Lender via the Loan Commitment System after the loan has been purchased by Minnesota Housing.

~~5.07~~**6.05 Loan Purchase Corrections**

If it is determined that an adjustment to the purchase price of any purchased loan is necessary, the Seller Lender will be invoiced for any funds to be returned or Minnesota Housing will disburse the necessary funds to the Seller Lender.

Chapter **67** – Documentation and Reporting Requirements

67.01 Loan Processing and Closing

All loans submitted to Minnesota Housing ~~for approval~~ must meet the following requirements:

- Loans must be closed and required pre-close review documents must be reviewed for compliance ~~and approved~~ by Minnesota Housing prior to ~~requesting Minnesota Housing loan approval via~~ completing the True and Certify process in the Loan Commitment System.
- Minnesota Housing forms must be used and may not be altered in any way.
- All loan documents must be complete, accurate and reviewed by the Seller Lender at the various and appropriate stages of the loan.
- All mortgage assignments must run directly from the Seller Lender to Minnesota Housing and use the Minnesota Uniform Conveyancing Blank.
- All mortgages and assignments must be recorded by the appropriate offices:
 - Abstract Property – County Recorder’s Office
 - Torrens Property – Registrar of Titles
 - Manufactured Homes taxed as personal property and located within a Manufactured Home park require a completed Public Safety Form 2017 (PS2017) recorded with the Department of Public Safety. The form should indicate Minnesota Housing Finance Agency as the secured party and list Minnesota Housing’s address. 400 Wabasha Street North, Suite 400, St. Paul MN 55102.

67.02 Loan Modification and Loan Corrections

~~Seller~~The Lender must contact Minnesota Housing for documentation and process instructions, including utilizing the ~~Commitment Request Form~~, Rehabilitation Loan Program Modification of Note and Mortgage Agreement, and/or Rehabilitation Loan Program Modification of Note and Manufactured Home Security Agreement, in the event of loan amount corrections and/or modifications that occur after loan ~~Commitment, after loan~~ closing, and/or after the loan has been recorded.

67.03 Minnesota Housing Documentation/Delivery Requirements

Minnesota Housing provides ~~the Commitment Request Form and~~ the Loan Transmittal Form that detail specific documentation/delivery requirements.

~~Seller~~The Lender must fully execute and deliver documents within designated timeframes ~~as outlined on the Loan Transmittal form~~. In addition, ~~Seller~~the Lender must specifically warrant that all applicable documentation has been obtained and reviewed to determine compliance with all Minnesota Housing requirements.

Documentation not delivered to Minnesota Housing/servicer within the specified time frames, may result, at Minnesota Housing’s discretion, in the Seller Lender being required to repurchase the loan, or any such remedy as identified in this Procedural Manual or allowed by law. Minnesota Housing may also, at its discretion, extend the timeframes.

67.04 Reporting Requirements

~~Sellers~~The Lenders participating in the Program are required to track all applicants and maintain sufficient documentation to show compliance with federal Fair Housing laws. ~~The full property address as well as the~~The following data must be gathered for each transaction ~~and entered in the Loan Commitment System.;~~

- Application date;
- Applicant's full name;
- Applicant's race/ethnicity;
- Single head of household information; and
- ~~Application status; and~~
- Reason the loan ~~was declined~~commitment is canceled, if applicable.

67.05 Records Retention

~~Seller~~The Lender must retain ~~any and all~~ loan documents, ~~(including in~~ compliance with ~~Program~~federal regulatory ~~guidelines).~~ The Lender is required to make loan records available for inspection by Minnesota Housing for a period of at least six (6) years from the maturity date of the loan, including after the loan is sold to Minnesota Housing. Those records that may be requested by Minnesota Housing include, but are not limited to: ~~the following:~~

- ~~Records for all rehabilitation improvements including~~Credit related documents (e.g. paystubs, tax returns, income statements, documentation of assets, etc.);
- Compliance related documents (e.g. Borrower application, Loan Estimate (or its alternative form), Closing Disclosure (or its alternative form), Affiliated Business Arrangement documents, evidence of compliance with the Bank Secrecy/Anti-Money Laundering Act, etc.);
- Property related documents (e.g. scope of work, bids, lien waivers, change orders, fees, building permits and completion certificates, evidence of compliance with rehabilitation and lead-based paint standards, etc.); and
- Collateral documents (e.g. title work or O&E reports, evidence of property ownership, a copy of the fully executed Note, a copy of the fully executed and recorded Mortgage, a copy of the fully executed recorded Assignment of Mortgage to Minnesota Housing, etc.).

;

~~Evidence that rehabilitation work meets all applicable codes and the Rehabilitation Standard;~~

~~Records that demonstrate compliance with lead-based paint requirements; Copy of the Borrower Application;~~

~~Written verification of all major sources of income; and~~

~~Written verification of current property ownership.~~

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ [SEPTEMBER 1, 2020](#)

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

Chapter ~~7~~8 – Servicing

~~78.01~~ Servicing

~~Each Seller will be assigned a designated servicer. Upon purchase of the loan by Minnesota Housing, the Lender must deliver documents outlined in the Loan Transmittal form to the Minnesota Housing may, at its discretion, designate other servicers.~~ servicer. Until the loan is purchased, the Lender assumes all loan servicing responsibilities.

~~78.02~~ Delivery of Loans to Servicer

~~Seller~~ The Lender must forward the loan, ~~along with the required documentation in the prescribed order and format, to the assigned package according to the requirements outlined in the Loan Transmittal form to the~~ servicer by mail within five calendar days of Minnesota Housing's purchase of the loan. Upon receipt of the recorded mortgage, the Lender must ensure the original document is delivered to the servicer within ten business days.

~~7.03~~ Due on Sale

~~The loan is due upon sale of or transfer of title to the property or if the property is no longer the Borrower's Principal Residence.~~

~~7.04~~8.03 Subordinations

Minnesota Housing allows subordinations only under limited circumstances and only with prior written approval. During the term of the loan, the Borrower's ability to use any equity in the property may be severely restricted.- Please refer any Borrower inquiries for subordinations after the loan has been purchased by Minnesota Housing to the servicer or Minnesota Housing.

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

Appendix A: Definitions

TERM	DEFINITION
Accommodation Parties	An owner of the property who is not a Borrower on the note, such as a non-purchasing spouse.
Borrower	The recipient of loan funds from the Program.
Commitment	A specific legal A Commitment of funds <u>from Minnesota Housing</u> with specific terms and conditions <u>for use by</u> <u>applied to</u> a specific Borrower <u>purchasing and</u> a specific property.
Construction Alteration (Manufactured Housing)	Pursuant to the Minnesota State Building Code (Minnesota Rules Part 1350.0100) "... replacement, addition, modification or removal of any equipment or installation which may affect the construction, plumbing, heating, cooling, fuel-burning system, electrical system or the functioning of any of these in manufactured homes subject to the code".
De Minimis Levels	As defined by HUD: 20 square feet on exterior surfaces; 2 square feet in any one interior room or space; or 10% of the total surface area on an interior or exterior type of component with a small surface area (e.g., window sills, baseboards or trim).
Home Addition	The addition of livable space which is achieved through an actual expansion of square footage to the home, or by finishing off unfinished or partially unfinished square footage in an existing area of the home.
<u>Lender</u>	<u>A lender under contract to participate in the Program.</u>
Lead-Safe Work Practices	The standard work practices outlined in approved training courses that meet the Minnesota Housing Lead Based Paint Guidebook. After April 22, 2010, the standard work practices outlined in approved training courses that meet HUD's Lead Safe Housing Rule and EPA's Renovation, Repair and Painting Rule.
Manufactured Home	A dwelling structure not permanently affixed to a real property and used as a permanent living accommodation.
Minnesota Housing	Refers to Minnesota Housing Finance Agency.
Participation Agreement	The contract executed between the <u>Sellers</u> <u>Lenders</u> and Minnesota Housing that defines the terms in which the <u>Seller</u> <u>Lender</u> agrees to participate in the

MINNESOTA HOUSING – REHABILITATION LOAN PROGRAM PROCEDURAL MANUAL

~~JULY 1, 2018~~ SEPTEMBER 1, 2020

	Program, also referred to as “Agreement”.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Program	Refers to the Rehabilitation Loan Program.
Rehabilitation Standard	Refers to the Single Family Rehabilitation Standard form.
Repair (Manufactured Housing)	Any improvement other than those outlined in the definition of Construction Alteration including, (according to Minnesota State Building Code (Minnesota Rules Part 1350.3800)) “...repairs with approved components or parts; conversion of listed fuel-burning appliances in accordance with the terms of their listing, adjustment and maintenance of equipment or replacement of equipment in kind.”
Seller	A lender under contract to participate in the Program.

Appendix B: Forms List

All forms listed in Appendix B should be fully executed, as applicable, and ~~obtained~~[maintained](#) in the loan file by the [Lender](#). ~~Seller. See the Loan File Requirements Checklist, Forms may be found on the Minnesota Housing website, Forms Guide and Glossary. See the Loan File Requirements Checklist~~ for additional documentation requirements.

- ☐ Authorization to Disclose Health Information (as needed)
- ☐ Bid Summary Form
- ☐ Borrower Application
- ☐ Borrower Eligibility for Similar Financing Worksheet
- ☐ Change Order (as needed)
- ☐ Completion Certificate
- ☐ Commitment Request Form (as needed)
- ☐ Assignment of Mortgage - Department of Commerce - MN Uniform Conveyancing Blanks (as needed)
- ☐ Income Eligibility Calculation Worksheet
- ☐ Final Affidavit of Receipt of Lead Reports (as needed)
- ☐ Green Communities Scope of Work Addendum
- ☐ Homeowner Agreement
- ☐ Loan Transmittal
- ☐ Loan Submission Worksheet
- ☐ Mortgage
- ☐ Note
- ☐ Note and Manufactured Home Security Agreement (as needed)
- ☐ Proceed to Work Notice
- ☐ Privacy Act Notice
- ☐ Rehabilitation Loan Program Loan Transmittal
- ☐ Modification of Note and Mortgage Agreement (as needed)
- ☐ Modification of Note and Manufactured Home Security Agreement (as needed)
- ☐ Single Family Rehabilitation Standard
- ☐ Tennesen Warning
- ☐ Work Program Agreement (as needed)



Board Agenda Item: 7B
Date: 8/27/2020

Item: Approval, Enhanced Financial Capacity Homeownership Program Selections

Staff Contact(s):

Que Vang, 651.296.7613, Que.Vang@state.mn.us

Tal Anderson, 651.296.2198, Tal.Anderson@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

Staff requests approval of the Enhanced Financial Capacity Homeownership Program (Homeownership Capacity Program) funding recommendations in the following categories:

- \$ 765,390 Program funding for 16 applicants for year 2 (2020-2021)
- \$ 234,610 Homeownership Capacity Incentive Fund and training to maintain Financial Capability Certification

Fiscal Impact:

None. The Homeownership Capacity Program is funded from Pool 3, with individual awards structured as grants that do not earn interest for the Agency.

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☒ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):

- Background
- Proposed Homeownership Capacity Provider Coverage Map

Background

The Enhanced Financial Capacity Homeownership Program (Homeownership Capacity Program) is designed to support the efforts of organizations that currently provide intensive financial empowerment education and coaching to those with the goal of homeownership.

The Homeownership Capacity Program was launched in response to Minnesota's large disparities in homeownership rates between white/non-Hispanic households and households of color or indigenous communities and aligns with the Agency's strategic priority of making homeownership more accessible.

In 2018, the Board approved the removal of the pilot status for the Homeownership Capacity Program. Under the Homeownership Capacity Program, organizations provide financial empowerment services that include but are not limited to:

- Asset building (e.g. savings, retirement plans, home ownership, higher education, etc.)
- Credit report education, repair and re-building
- Development of spending plans, including discussion of financial best practices
- Consumer protection training and education (i.e. banks, credit unions, insurance companies, predatory financial scams, and identity theft)
- Filing taxes

The Homeownership Capacity Program has met or exceeded program outcome expectations further supporting the value of long-term intensive financial coaching and education for low-income renters and households of color or indigenous communities with the goal of homeownership. Since the launch of the Homeownership Capacity Program in August 2014, 4,411 households have started receiving program services. Of those 4,411 households, 1,595 (36%) have stopped communication, 1,826 (41%) are still active, and 990 (22%) have completed the program.

Of the 990 households who completed the Program, 702 (71%) have reported the following outcomes:

Outcomes	Percent of Households
Home purchase	61%
Client is still actively pursuing homeownership 1 year after completing the program	17%
Decided not to purchase	22%

The chart below identifies additional information about the household served:

Identify as a household of color or indigenous	86%
Median Income at Intake (initial point of contact)	\$ 35,000
Median Credit Score at Intake (initial point of contact)	604

Historically, Homeownership Capacity Program funds were awarded on an annual basis through a competitive Application for Funding (the "Application"). Applicants that applied in March 2019 requested funding for two-years and entered into contract for the first year of funding (initial award). The initial award received board approval July 2019 and covered the period between October 1, 2019 – September 30, 2020 (year one). Potential funding for October 1, 2020-September 30, 2021 (year two) was contingent upon availability of funds, grantee performance, and other requirements, including Board approval.

Staff is recommending approval for a second year of funding awards to most of the initial Grantees. Following board approval, a contract amendment will be issued and executed which incorporates the additional funding amount and extends the term for the full two-year performance period of October 1, 2019 – September 30, 2021 and will include the full award, goals, and any additional contract requirements (if applicable).

In addition to these year two funding awards, a new mid-cycle Application was opened for organizations who expressed interest in applying for program funding. The mid-cycle Application allowed applicants to apply for only year two of the Program (2020 – 2021) and followed the same Application process as those who completed the Application for the full two year request. Staff is recommending funding for two new grantees from this mid-cycle application – CAPI USA and Community Action Partnership Hennepin County. These recommended new grantees were the only applicants in this mid-cycle application.

Application and Scoring:

In the proposals, applicants were asked to address the following:

- The target service area and target demographic the applicant will serve as well as the approach to securing client participation
- The number of clients that will be served and the capacity of the applicant to meet the demand
- The role of the coach and client
- The anticipated average length of time the applicant will work with clients
- How homebuyer education will be integrated into the program design
- Training of those providing Homeownership Capacity services
- Outreach efforts to ensure applicants are attracting potential clients that fall within the program parameters

Each new Application was reviewed and evaluated by Single Family program staff and scored pursuant to the criteria summarized above by a Selection Committee made up of Leadership from the Agency.

Program Funding Recommendations

In determining the second year award for the existing grantees, program staff reviewed the grantees original Application proposal and past activities. Projections were completed for the recommended second year award.

The chart below represents staff's recommendation for the Homeownership Capacity Program. Year 1 represents the initial funding award approved by the board in July 2019, Year 2 represents recommended awards, for both initial and new grantees, and the total column reflects the contract amendment amount for existing grantees. Mid-cycle awards will enter into a new grant agreement.

GRANTEES 2019-2021	Year 1 Initial Award	Year 2 Recommended Award	Total Award
African Development Center	\$ 50,000	\$ 35,000	\$ 85,000
African Economic Development Solutions	\$ 10,000	\$ 2,000	\$ 12,000
Mni Sota Fund formerly Bii Gii Wiin Community Development Loan Fund	\$ 36,000	\$ 24,000	\$ 60,000
Community Action Duluth	\$ 72,000	\$ 72,000	\$ 144,000

Community Neighborhood Housing Service dba NeighborWorks Home Partners	\$ 43,200	\$ 34,800	\$ 78,000
Comunidades Latinas Unidas En Servicio (CLUES)	\$ 36,000	\$ 42,000	\$ 78,000
Hmong American Partnership	\$ 49,995	\$ 0	\$ 49,995
Lutheran Social Service of MN	\$ 114,000	\$ 144,000	\$ 258,000
Mpls Urban League	\$ 18,000	\$ 18,000	\$ 36,000
Neighborhood Development Alliance	\$ 80,000	\$ 70,000	\$ 150,000
PRG, Inc.	\$ 75,000	\$ 75,000	\$ 150,000
Project for Pride in Living, Inc.	\$ 69,600	\$ 74,400	\$ 144,000
Southwest Minnesota Housing Partnership	\$ 15,000	\$ 10,000	\$ 25,000
Three Rivers Community Action, Inc.	\$ 91,600	\$ 123,660	\$ 215,260
West Central MN Communities Action, Inc.	\$ 22,650	\$ 4,530	\$ 27,180
MID-CYCLE 2020 – 2021 AWARDS		Award	Total Award
CAPI USA	\$ 0	\$ 18,000	\$ 18,000
Community Action Partnership Hennepin County	\$ 0	\$ 18,000	\$ 18,000
TOTAL HOMEOWNERSHIP CAPACITY AWARD	\$ 783,045	\$ 765,390	\$ 1,548,435

One of the initial grantees, Hmong American Partnership, is not requesting additional funding. It is recommended that its contract be extended an additional year to allow the organization to meet program goals.

Additionally, for your information, Build Wealth provides similar services to the Homeownership Capacity Program through a direct legislative appropriation to the Agency for Build Wealth in the amount of \$500,000.

With the second year of funding, the 16 recommended organizations expect to serve 706 households of color and low-income renters statewide.

Homeownership Capacity Incentive Fund and Training to Maintain Financial Capability Certification

Staff also requests that the Board approve up to \$234,610 for purposes of the Homeownership Capacity Incentive Fund which allows grantees access to additional funds if they have met their Grant Contract goals for number of households served. A short application process is established for grantees to request those additional funds. Under the Homeownership Capacity Incentive Fund, and in accordance with Board Delegation 018, funding may be available on a first-come first-served basis:

1. The amount of Homeownership Capacity Incentive Fund awards is limited to up to 25% of the Grant Contract Award, not to exceed \$25,000 per grantee and up to a maximum of \$1,200 per household.
2. Funding for Incentive Fund Awards is available only during the Grant Contract term and after the grantee has met their Grant Contract household served. Requests must be received by Minnesota Housing staff no later than August 15, 2021.
3. The grantee must meet satisfactory performance for the Program's reporting requirements and may not be out of compliance or have outstanding monitoring issues.
4. Incentive Fund Awards are subject to the terms and conditions of the Grant Contract and the Agency reserves the right to ask for additional documentation.

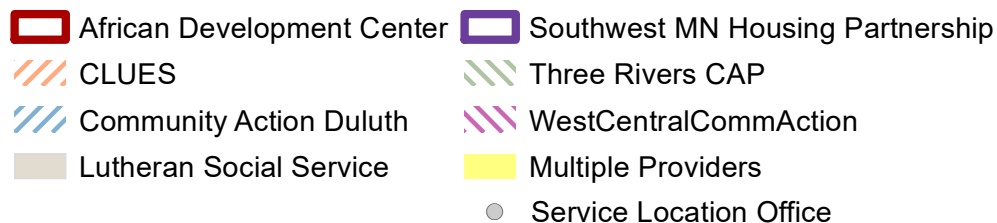
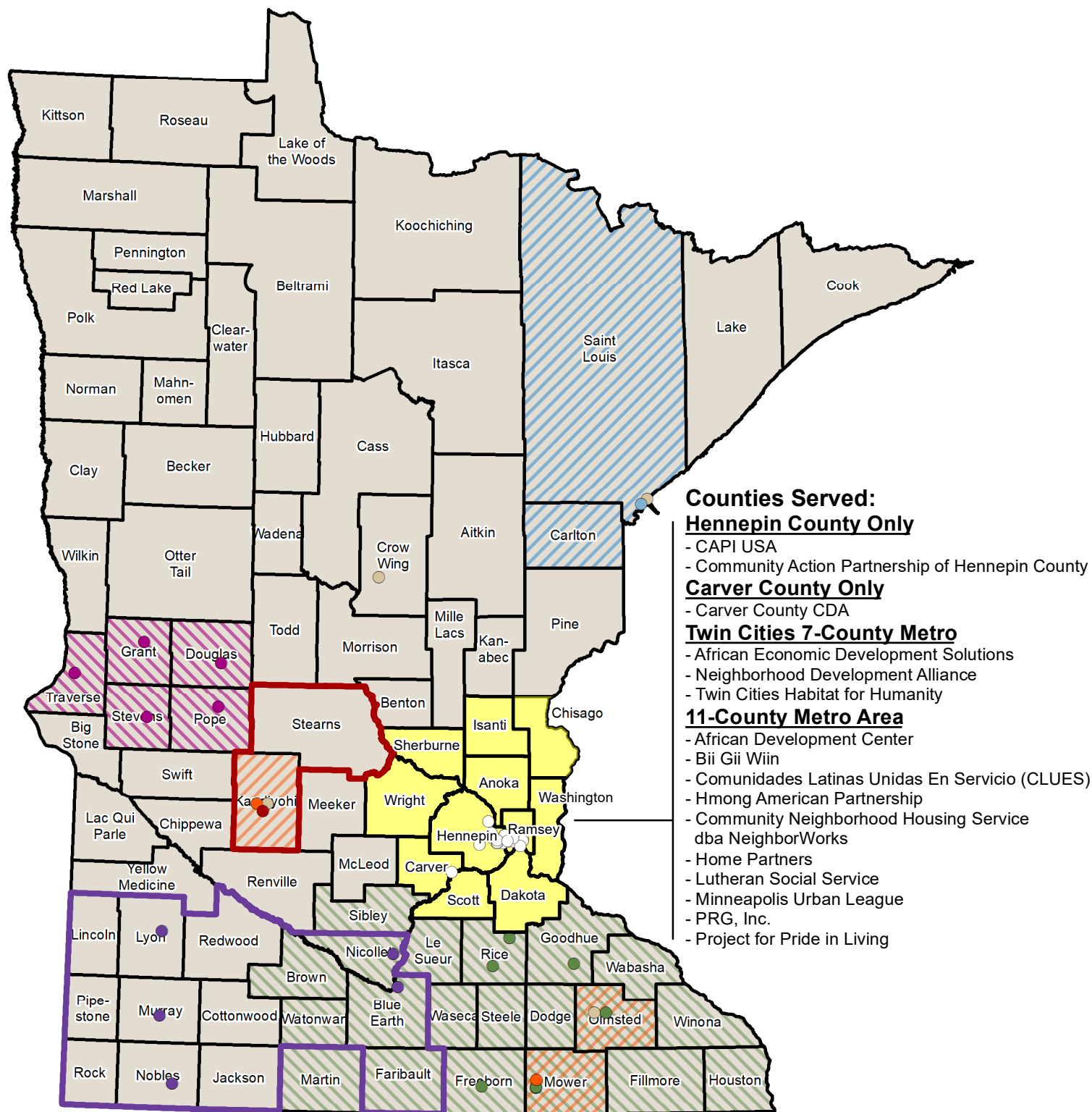
One training requirement under the Homeownership Capacity Program is each grantee must have, at minimum, one person with an active Financial Capability Certification through NeighborWorks America. The certificate is active for three years with the option to become re-certified. To become re-certified, NeighborWorks America requires 30 continuing education hours within three years of the certification date. Of the 30 continuing education hours, 15 of those hours must be eligible NeighborWorks America courses. At this time, only NeighborWorks America provides this certification. Trainings are often held out-of-state and recently virtually, which is costly for organizations. Therefore, contracting with NeighborWorks America to provide the trainings in Minnesota or for Minnesota Housing grantees is more cost effective. Other trainings may be identified and contracted to provide non-NeighborWorks America courses; these would fulfill the remaining 15 hours of continuing education required to maintain the certification. Staff will poll the grantees to determine which course(s) best meet their needs.

The total available funds requested for approval is \$234,610 for both the Homeownership Capacity Incentive Fund and the certification and continuing education training(s). Of the total \$234,610, an estimated \$192,710 will be available for the Homeownership Capacity Incentive Fund and an estimated \$41,900 will be reserved for certification and continuing education training. Should additional training be identified, Incentive Fund dollars may be shifted to assist with the cost of training.

Request for Approval

Staff is hereby requesting Board approval for \$1,000,000 in funding recommendations in the following categories as set out in this board report:

- \$ 765,390 Program funding for 16 applicants for year 2 (2020-2021)
- \$ 234,610 Homeownership Capacity Incentive Fund and training to maintain Financial Capability Certification



**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, MN 55102**

RESOLUTION NO. MHFA 20-

**RESOLUTION APPROVING SELECTION OF PROJECTS FOR GRANT FUNDS FOR THE ENHANCED
FINANCIAL CAPACITY HOMEOWNERSHIP PROGRAM (HOMEOWNERSHIP CAPACITY PROGRAM) AND
FUNDING FOR THE HOMEOWNERSHIP CAPACITY INCENTIVE FUND AND FOR TRAINING TO MAINTAIN
FINANCIAL CAPABILITY CERTIFICATION**

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received applications to provide grant funds to non-profit organizations and local units of government looking to provide services under the Enhanced Financial Capacity Homeownership Program (Homeownership Capacity Program); and

WHEREAS, Agency staff has reviewed the applications and determined that the applications are in compliance under the Agency's rules, regulations and policies; and that the applications will assist in fulfilling the purpose of the Homeownership Capacity Program.

NOW THEREFORE, BE IT RESOLVED:

The Board hereby authorizes Agency staff:

1. To process the recommended grant increases as set out below and amend the term of the grant contracts to run through September 30, 2021. The issuance of grant amendments in form and substance acceptable to the Agency staff and the execution of the individual grant amendments shall occur no later than September 30, 2020. The sponsors and such other parties shall execute all such documents relating to said grant amendments as the Agency, in its sole discretion, deems necessary.

<u>Organization</u>	<u>Additional Funding Amount</u>
African Development Center	\$ 35,000
African Economic Development Solutions	\$ 2,000
Mni Sota Fund formerly Bii Gii Wiin Community Development Loan Fund	\$ 24,000
Community Action Duluth	\$ 72,000
Community Neighborhood Housing Service dba NeighborWorks Home Partners	\$ 34,800
Comunidades Latinas Unidas En Servicio (CLUES)	\$ 42,000
Lutheran Social Service of MN	\$ 144,000
Mpls Urban League	\$ 18,000
Neighborhood Development Alliance	\$ 70,000
PRG, Inc.	\$ 75,000
Project for Pride in Living, Inc.	\$ 74,400
Southwest Minnesota Housing Partnership	\$ 10,000

Three Rivers Community Action, Inc.	\$	123,660
West Central MN Communities Action, Inc.	\$	4,530
TOTAL INCREASED HOMEOWNERSHIP CAPACITY (2020 – 2021) AWARDS	\$	729,390

2. To enter into grant contracts as set out below and with a term through September 30, 2021. The issuance of grant contracts in form and substance acceptable to the Agency staff and the execution of the individual grant contracts shall occur no later than September 30, 2020. The sponsors and such other parties shall execute all such documents relating to said grant contracts as the Agency, in its sole discretion, deems necessary.

CAP USA	\$	18,000
Community Action Partnership Hennepin County	\$	18,000
TOTAL NEW HOMEOWNERSHIP CAPACITY (2020 – 2021) AWARDS	\$	36,000

3. The execution of a grant amendment to extend the term of the Hmong American Partnership grant agreement in form and substance acceptable to the Agency staff to run through September 30, 2021. The execution of the individual grant amendment shall occur no later than September 30, 2020. The sponsors and such other parties shall execute all such documents relating to said grant amendment as the Agency, in its sole discretion, deems necessary.
4. Utilize a total of \$234,610 for the Homeownership Capacity Incentive Fund and the provision of certification and continuing education training(s). Of the total \$234,610, an estimated \$41,900 will be reserved for certification and continuing education training. Should additional training be identified, funds may be shifted from the Homeownership Capacity Incentive Fund to assist with the cost of training.

Adopted this 27th day of August 2020

CHAIRMAN



Board Agenda Item: 7.C
Date: 8/27/2020

Item: 2020 Capacity Building Initiative Request for Proposal

Staff Contact(s):

Alyssa Wetzel-Moore, 651.263.1453, Alyssa.Wetzel-Moore@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

We are requesting the Board's approval of the 2020 Capacity Building Initiative Request for Proposal (RFP). The program will provide up to \$40,000 in funding for one-year projects that will build organizational capacity to address housing disparities, build power in communities most impacted by housing challenges and disparities, pilot innovative solutions to housing challenges, and support inclusive and equitable communities.

Fiscal Impact:

The program will use up to \$450,000 from Pool 3 under the Technical Assistance and Operating Support program. Individual awards are structured as grants, which do not earn interest for the Agency.

Meeting Agency Priorities:

- ☒ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☒ Make Homeownership More Accessible
- ☒ Support People Needing Services
- ☒ Strengthen Communities

Attachment(s):

- Background

Background

Minnesota Housing's Capacity Building Initiative is intended to build organizational capacity to address housing disparities, build power in communities most impacted by housing challenges and disparities, pilot innovative solutions to housing challenges, and support inclusive and equitable communities. We want organizations and communities to use their knowledge and creativity to develop strategies that work for them.

We recognize that historical and institutional racism has disproportionately created housing challenges and disparities for Black, Indigenous, and People of Color (BIPOC) communities and recognize the importance of BIPOC communities leading and driving solutions to these challenges. We also recognize that there are other communities most impacted by housing challenges and housing instabilities who have a critical role to play in addressing the challenges that affect them.* Through increasing their capacity, we seek to build communities where everyone can thrive.

We are proposing to allocate up to \$450,000 for this initiative to provide up to **\$40,000** in funding for one-year projects that will help grantees meet project objectives, develop a knowledge base, and develop the programming to ultimately increase effectiveness and impact in the long term. Successful applications must be able to articulate a vision and plan to sustain the work developed during the project period. We will encourage organizations with smaller capacity to apply and scale their funding request to the needs of their proposed project **or** partner with an organization to increase their capacity to achieve a larger objective.

*Communities Most Impacted as defined in our [Strategic Plan](#) are the people and places more likely to be impacted by housing instability included: lowest income (e.g. $\leq 30\%$ of area median income (AMI)), people of color, Indigenous individuals, LGBTQ+, people experiencing homelessness, people with disabilities, immigrants, large families, seniors, children, people facing barriers and/or limited choices due to: poor credit, limited savings, criminal history, prior evictions, transitioning out of foster care, prison, other systems.

Who can apply for funding?

- Tax-exempt nonprofits
- Tribal governments and tribal corporate entities
- Collaborations, if lead partner is a qualified applicant
- Local units of government and political subdivisions

What can funds be used for?

Examples of eligible activities include but are not limited to:

- Pilot projects (e.g., housing models for those with background check challenges; solutions that increase housing stability and access, such as renter protections, that is guided by evidence-based research; tenant engagement and advocacy training)
- Community engagement, education and leadership development to facilitate community-led decision-making to reduce the homeownership disparity gap or meet a housing need.

- Partnership development, including a fiscal agent or consultant relationship, to build organizational capacity, leverage resources, relationships and expertise to comprehensively address community housing needs.
- Staff development and training to build organizational capacity to meet community needs.

What activities are NOT eligible for funding?

- Direct housing development costs
- Direct housing services including affordability gap or down-payment assistance
- Expenses not directly related to the proposed project or activity
- Lobbying or other direct political activities

What criteria will proposals be reviewed for?

- Extent to which the proposal addresses root causes of housing disparities and challenges.
- Role of communities most impacted by housing challenges and disparities in the planning and implementation of the proposed project.
- Clarity of plan demonstrating how the program will serve, actively engage, build and share power with the communities most impacted.
- Clear and measurable outcomes.
- Extent to which increasing organizational capacity will result in outcomes that shift systems toward equity in housing.
- Capability of staff and organizational leadership to undertake the proposed work and the presence of communities most impacted in organizational leadership and decision-making roles.
- Credibility of plan to complete the proposed work within one year and plan to embed and sustain increased capacity.
- Ability to budget and manage grant funding.

Priority will be given to activities that did not receive Capacity Building Initiative funds in 2019. We will fund a variety of project types and will work to achieve an equitable racial and geographic distribution of funds across the state. Proposals that advance to the final stage of scoring will be invited to participate in an interview that will include questions related to the grant priorities and the proposal. Interviews will be scored and incorporated into the final evaluation and selection process.

Reporting Requirements

All Capacity Building Initiative grantees are required to:

- Participate in check-ins with Minnesota Housing.
- Submit a mid-year, one-page report.
- Submit a final report outlining proposed and achieved outcomes and expenditures.

Anticipated Timeline

- August 27, 2020: Application release date
- September 24, 2020, 5 p.m. : Application deadline
- December 17, 2020: Board approval and applicants informed of funding decisions

This page intentionally left blank.

Item: Resolution Authorizing Issuance and Sale of Rental Housing Bonds, 2020 Series B (Le Sueur Meadows)

Staff Contact(s):

Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

Debbi Larson, 651.296.8183, debbi.larson@state.mn.us

Paula Rindels, 651.296.2293, paula.rindels@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

Staff is requesting authorization to issue short-term fixed rate tax-exempt bonds under the existing Rental Housing bond indenture. The bonds will be issued in an amount not to exceed \$5,665,000, and will be used to finance the acquisition, renovation and construction of a 39-unit rental housing development located in Le Sueur, Minnesota. The Agency expects to price and issue these Rental Housing bonds in September or October; the attached Preliminary Official Statement describes the entire transaction.

Fiscal Impact:

The Agency will earn an interest rate spread while these bonds are outstanding, and will also receive certain fee income as part of the closing of the bridge loan financed with the bonds proceeds. In addition, the Agency will receive additional interest earnings and certain fee income in conjunction with providing a long-term end loan as part of the permanent financing for the project.

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):

- Preliminary Official Statement
- Resolution

NEW ISSUE

Ratings: Moody's: “__”
S&P: “__”

Minnesota Housing Finance Agency has prepared this Official Statement to provide information about the Series Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series Bonds, a prospective investor should read all of this Official Statement. Capitalized terms used on this cover page have the meanings given in this Official Statement.



\$5,665,000*

MINNESOTA HOUSING FINANCE AGENCY
Rental Housing Bonds, 2020 Series B (Non-AMT)

Dated: Date of Delivery

Due: as shown on inside front cover

Tax Exemption

Interest on the Series Bonds is not includable in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. (For additional information, including further information on the application of federal and state alternative minimum tax provisions to the Series Bonds, see “Tax Exemption and Related Considerations” herein.)

Redemption

The Agency may redeem all or a portion of the Series Bonds by optional or special redemption as described under “The Series Bonds” herein.

Security

Payment of principal and interest on the Series Bonds is secured, on an equal basis with payment of principal and interest on all Outstanding Bonds that the Agency has issued, and may subsequently issue, under the Bond Resolution, by a pledge of Bond proceeds, Mortgage Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series Bonds are also general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. **THE AGENCY HAS NO TAXING POWER. THE STATE OF MINNESOTA IS NOT LIABLE FOR THE PAYMENT OF THE SERIES BONDS AND THE SERIES BONDS ARE NOT A DEBT OF THE STATE.** (See “Security for the Bonds.”)

Interest Payment Dates

February 1 and August 1, commencing February 1, 2021.*

Denominations

\$5,000 or any integral multiple thereof.

Closing/Settlement

On or about October __, 2020* through the facilities of DTC in New York, New York.

Bond Counsel

Kutak Rock LLP.

Underwriter's Counsel

Dorsey & Whitney LLP.

Trustee

Wells Fargo Bank, National Association, in Minneapolis, Minnesota.

Book-Entry-Only System

The Depository Trust Company. (See Appendix E herein.)

The Series Bonds are offered, when, as and if issued, subject to withdrawal or modification of the offer without notice and to the opinion of Kutak Rock LLP, Bond Counsel, as to the validity of, and tax exemption of interest on, the Series Bonds.

RBC Capital Markets

The date of this Official Statement is
 __, 2020.

*Preliminary; subject to change.

MATURITY, PRINCIPAL AMOUNT, INTEREST RATE AND PRICE*

\$5,665,000* 2020 Series B Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP**</u>
February 1, 2023*	\$5,665,000*	____%	100%	

*Preliminary, subject to change.

**CUSIP number has been assigned by an organization not affiliated with the Agency and is included for the convenience of the owners of the Series Bonds. The Agency is not responsible for the selection or uses of this CUSIP number, nor is any representation made as to its correctness on the Series Bonds or as indicated above. A CUSIP number for a specific maturity may be changed after the issuance date. CUSIP® is a registered trademark of the American Bankers Association.

Neither Minnesota Housing Finance Agency nor the Underwriter has authorized any dealer, broker, salesman or other person to give any information or representations, other than those contained in this Official Statement. Prospective investors must not rely on any other information or representations as being an offer to buy. No person may offer or sell Series Bonds in any jurisdiction in which it is unlawful for that person to make that offer, solicitation or sale. The information and expressions of opinion in this Official Statement may change without notice. Neither the delivery of the Official Statement nor any sale of the Series Bonds will, under any circumstances, imply that there has been no change in the affairs of the Agency since the date of this Official Statement.

This Official Statement contains statements that, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Agency, the Program and the Series Bonds could cause actual results to differ materially from those contemplated in the forward-looking statements.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of the information.

In connection with this offering, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Series Bonds at a level above that which might otherwise prevail in the open market. This stabilizing, if commenced, may be discontinued.

NO FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY HAS RECOMMENDED THESE SECURITIES. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

INTRODUCTION.....	4	<u>APPENDIX C</u>	
THE AGENCY.....	5	SUMMARY OF CONTINUING DISCLOSURE	
THE DEVELOPMENT.....	14	UNDERTAKING.....	C-1
THE SERIES BONDS.....	15	<u>APPENDIX D</u>	
SECURITY FOR THE BONDS.....	16	SUMMARY OF CERTAIN PROVISIONS OF THE	
THE RENTAL HOUSING PROGRAM.....	19	BOND RESOLUTION	D-1
OTHER PROGRAMS	27	<u>APPENDIX E</u>	
TAX EXEMPTION AND RELATED		BOOK-ENTRY-ONLY SYSTEM.....	E-1
CONSIDERATIONS.....	28	<u>APPENDIX F</u>	
LITIGATION	30	FORM OF OPINION OF BOND	
LEGAL MATTERS	31	COUNSEL.....	F-1
FINANCIAL ADVISOR.....	31		
RATINGS.....	31		
UNDERWRITING	31		
MISCELLANEOUS.....	32		
<u>APPENDIX A</u>			
DESCRIPTION OF OUTSTANDING MORTGAGE			
LOANS AND DEVELOPMENTS PREVIOUSLY			
FINANCED BY RENTAL HOUSING BONDS AND			
MORTGAGE LOANS AND DEVELOPMENTS			
PLEDGED AS ADDITIONAL SECURITY UNDER THE			
RENTAL HOUSING BOND RESOLUTION			
INCLUDING THOSE INTENDED TO BE FINANCED			
WITH PROCEEDS OF THE SERIES BONDS	A-1		
<u>APPENDIX B</u>			
AUDITED FINANCIAL STATEMENTS OF THE			
AGENCY AS OF JUNE 30, 2020.....	B-1		

OFFICIAL STATEMENT

relating to
\$5,665,000*

MINNESOTA HOUSING FINANCE AGENCY Rental Housing Bonds, 2020 Series B (Non-AMT)

This Official Statement (which includes the Appendices) provides certain information concerning the issuance and sale by Minnesota Housing Finance Agency (the “Agency”) of its Rental Housing Bonds, 2020 Series B (the “Series Bonds”). The Agency is issuing the Series Bonds pursuant to Minnesota Statutes, Chapter 462A, as amended (the “Act”), a resolution of the Agency adopted February 25, 1988 (as amended and supplemented in accordance with its terms, the “Bond Resolution”), and a series resolution of the Agency adopted August 27, 2020 (the “Series Resolution”). (The Bond Resolution and the Series Resolution are herein sometimes referred to as the “Resolutions.”)

The Rental Housing Bonds Outstanding in the aggregate principal amount of \$[50,055,000] as of August 31, 2020, the Series Bonds and any additional Rental Housing Bonds issued pursuant to the Bond Resolution (collectively referred to as the “Bonds”), are and will be equally and ratably secured under the Bond Resolution.

The Resolutions should be referred to for the definitions of capitalized terms used herein, some of which are reproduced in this Official Statement. The summaries and references herein to the Act, the Resolutions and other documents are only brief outlines of certain provisions and do not purport to summarize or describe all the provisions thereof. All references herein to the Act, the Bond Resolution and the Series Resolution are qualified in their entirety by reference to the Act and the Resolutions, copies of which are available from the Agency, and all references to the Series Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolutions.

INTRODUCTION

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota. The Act authorizes the Agency to issue bonds for the purpose, among other purposes, of making mortgage loans to sponsors of residential housing for occupancy by persons and families of low and moderate income if the Agency determines that those loans are not otherwise available from private lenders with equivalent terms and conditions.

Since its creation in 1971, the Agency has issued bonds to purchase single family mortgage loans, to purchase home improvement loans and to finance multifamily developments. In addition to financing loans through the issuance of debt, the Agency finances grants and loans through State and federal appropriations and its Alternative Loan Fund in the Residential Housing Finance Bond Fund. Please refer to the information in the notes to the financial statements included in Appendix B to this Official Statement at pages [59 and 60] under the heading “Net Position — Restricted by Covenant.”

The global outbreak of the coronavirus COVID-19 (“COVID-19”) and measures taken by federal, state and local governments in response thereto are impacting individuals and businesses in a manner that to an unknown extent will have negative effects on economic activity across the country and the State, including mortgage loan repayments. For descriptions of certain of these measures, their impacts on the Agency and the Agency’s responses, see “The Agency—COVID-19 Economic Disruption” herein.

The Agency uses proceeds of Bonds it issues pursuant to the Bond Resolution to finance a portion of the activities undertaken pursuant to the Rental Housing Program (the “Program”). The multifamily division of the

*Preliminary, subject to change.

Agency administers the Program. The purpose of the Program is to increase the supply of, and to maintain and improve, the rental housing stock in Minnesota that is affordable to low and moderate income households. The Program has also provided financing for nonprofit group homes for the developmentally disabled. Through the use of bond financing and other funding sources, the Agency intends that the Program will provide both short-term and long-term, fixed rate, first lien (or second lien if the Agency also holds the first lien) mortgage loans ("Mortgage Loans"), and, under certain circumstances, subordinate mortgage loans ("Subordinate Mortgage Loans"), to finance the construction, acquisition, rehabilitation or refinancing of multifamily rental housing and group home developments (the "Developments"). The Bond Resolution authorizes, upon conditions set forth therein, the issuance of additional series of Bonds on a parity with the Outstanding Bonds, including the Series Bonds.

In recognition of certain risks inherent in mortgage lending, the Agency has adopted policies and review procedures for detailed evaluation of the Developments that it finances prior to making Mortgage Loan commitments. To assure completion of rehabilitation, construction and proper maintenance, the Agency has established reserve and escrow requirements and procedures for regulating and monitoring operations with respect to the Developments. The procedures the Agency presently uses to reduce those risks are described more fully herein under the heading "The Rental Housing Program."

The Agency intends to use the proceeds of the Series Bonds to fund a short-term first lien mortgage loan, to a private owner, that will finance a portion of the costs of acquisition, construction and equipping of a multifamily housing development in Le Sueur, Minnesota. (See "The Development.") The Series Bonds are general obligations of the Agency payable from any of its moneys, assets or revenues, subject to the provisions of other resolutions and indentures now or hereafter pledging particular moneys, assets or revenues, to particular notes or bonds, and federal or State laws heretofore or hereafter enacted appropriating funds to the Agency for a specified purpose. The net position of the General Reserve and the Alternative Loan Fund are legally available if needed to pay debt service on any obligations of the Agency, including the Series Bonds. (For purposes of the Resolutions, the General Reserve is designated as the General Reserve Account.) (See "The Agency — Net Position Restricted By Covenant and Operations to Date – General Reserve; Alternative Loan Fund.")

The Agency has further pledged as security for the payment of the Series Bonds (on an equal basis with the Outstanding Bonds issued and that may be issued under the Bond Resolution) amounts on deposit and investments in certain accounts and funds established pursuant to the Resolutions, including the Debt Service Reserve Fund established pursuant to the Bond Resolution in accordance with the Act. Under the Act, upon certification by the Agency, the State Legislature may, but is not required to, appropriate amounts that may be necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. (See "Security for the Bonds.")

Although the State has appropriated amounts to the Agency for various specific purposes (see "The Agency — State Appropriations"), the Agency generally pays its general and administrative expenses from certain interest earnings and fees charged in connection with its bond-funded programs. For programs funded through State appropriations, the Agency recovers the costs of administering the programs only to the extent of interest earnings on the appropriations. The appropriations are not available to pay debt service on the Bonds.

The Agency has no taxing power. Neither the State of Minnesota nor any political subdivision thereof is or will be obligated to pay the principal or redemption price of, or interest on, the Series Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to that payment.

THE AGENCY

Purpose

The Agency was created in 1971 by the Act as a public body corporate and politic, constituting an agency of the State of Minnesota, in response to legislative findings that there existed in Minnesota a serious shortage of decent, safe, and sanitary housing at prices or rentals within the means of persons and families of low and moderate income, and that the then present patterns of providing housing in the State limited the ability of the private building

industry and the investment industry to produce that housing without assistance and resulted in a failure to provide sufficient long-term mortgage financing for that housing.

Structure

Under the Act, the membership of the Agency consists of the State Auditor and six public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed and qualified. The Chair of the Agency is designated by the Governor from among the appointed public members. Pursuant to state law, the State Auditor may delegate duties and has delegated her duties as a member of the Agency in the event that the Auditor is unable to attend a meeting of the Agency.

The present members of the Agency, who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are listed below.

John DeCramer, Chair — Term expires January 2024, Marshall, Minnesota – Magnetics Engineer

The Honorable *Julie Blaha* — *Ex officio*, St. Paul, Minnesota – State Auditor

Melanie Benjamin, Member — Term expires January 2021, Onamia, Minnesota – Consultant

Craig Klausing, Member — Term expires January 2023, Roseville, Minnesota – Attorney

Stephanie Klinzing, Member — Term expires January 2023, Elk River, Minnesota – Writer and Publisher

Stephen Spears, Member — Term expires January 2022, Plymouth, Minnesota – Banker

Terri Thao, Vice Chair — Term expires January 2024, St. Paul, Minnesota – Program Director

Staff

The staff of the Agency presently consists of approximately 265 persons, including professional staff members and contractors who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides certain legal services to the Agency.

The Commissioner is appointed by the Governor. The Act authorizes the Commissioner of the Agency to appoint the permanent and temporary employees as the Commissioner deems necessary subject to the approval of the Commissioner of Management and Budget.

The principal officers and staff related to the Program are as follows:

Jennifer Ho — Commissioner-Designee, appointed effective January 2019. When Governor Tim Walz took office on January 7, 2019, Ms. Ho was appointed Commissioner and has all of the powers and will perform all of the duties of the office. The appointment of Ms. Ho as Commissioner must be confirmed by the advice and consent of the state of Minnesota Senate. Prior to her appointment, Ms. Ho was the Senior Policy Advisor for Housing and Services at the U.S. Department of Housing and Urban Development during the Obama Administration. Prior to that, she served as deputy director at the United States Interagency Council on Homelessness (USICH), shepherding the creation of Opening Doors, the nation's first-ever comprehensive federal plan to prevent and end homelessness. Ms. Ho worked with former First Lady Michelle Obama to launch the Mayors Challenge to End Veteran Homelessness that resulted in reducing the number of veterans experiencing homelessness on any night by nearly half. In 1999, as Executive Director of Hearth Connection, a Minnesota non-profit, she began her work to end homelessness by managing a nationally-recognized demonstration project on supportive housing and long-term homelessness for single adults, youth and families in Ramsey and Blue Earth counties. Ms. Ho oversaw the replication of that project in 34 additional counties in partnership with the Fond du Lac, Bois Fort and Grand Portage Tribal Bands. She has served on the Boards of Directors for West Side Community Health Services in St. Paul, and nationally for the Corporation for Supportive Housing and the Melville Charitable Trust. Ms. Ho received a Bachelor of Arts Degree in philosophy from Bryn Mawr College.

Rachel Robinson — Deputy Commissioner, appointed March 2019. Prior to this position, Ms. Robinson was Fund Manager for the NOAH Impact Fund, a subsidiary of the Greater Minnesota Housing Fund, a certified Community Development Financial Institution, from 2016 to 2019, responsible for securing investment commitments, structuring transactions, developing investor and partner relations, and ensuring that social impact goals and compliance requirements were met. She has worked in affordable housing development and finance for over 15 years, including with CommonBond Communities from 2011 to 2015, where as Vice President she developed and led enterprise asset management systems, and as Senior Housing Development Manager from 2008 to 2011. Ms. Robinson was also Director of Property Development at Artspace Projects, Inc. from 2015 to 2016. She holds a Master's degree in Urban and Regional Planning from the University of Minnesota Humphrey School of Public Affairs and a Bachelor of Arts degree in Urban Studies from Macalester College, St. Paul, Minnesota.

Kevin Carpenter — Chief Financial Officer, appointed effective March 2016. In this position, Mr. Carpenter leads the finance and accounting teams of the Agency and provides strategic direction regarding the organization's financial resources. Prior to this position, Mr. Carpenter was the Chief Financial Officer at the City of Minneapolis from May 2011 to November 2015, and also had significant tenure in various senior financial and operating positions at RBC Capital Markets, LLC. He previously was an investment banker at RBC Capital Markets, LLC and at Lehman Brothers. Mr. Carpenter earned a Master's Degree in Business Administration from Harvard University Business School and a Bachelor of Arts degree in Government from Dartmouth College.

Debbi Larson — Director of Finance appointed effective December 2019. Ms. Larson was Controller and Director of Financial Operations for the Agency from August 2015 to December 2019. Prior to that position, she was Director of Finance and Information Technology for a subsidiary of Taylor Corporation and responsible for domestic and international locations and, prior to that, was the Chief Financial Officer for a division of the Minnesota Department of Corrections. Ms. Larson previously held various accounting positions of increasing responsibility. Ms. Larson holds a Bachelor of Science degree with a concentration in Accounting from the University of Phoenix, and an MMBA (accelerated MBA program) Executive Leadership certification from the University of St. Thomas.

Anne Smetak — General Counsel, appointed effective June 2020. Ms. Smetak has been a member of the Agency's legal team since April 2016 and served as Deputy General Counsel for the Agency from July 2019 to June 2020. Her experience prior to joining the Agency includes corporate litigation, affordable housing preservation as a legal services attorney, and clinical teaching roles at the Washington College of Law and The George Washington University School of Law. Ms. Smetak earned a law degree and a Master of Laws degree from The George Washington University School of Law and holds a Bachelor of Arts degree in Political Science from Kenyon College.

James Lehnhoff — Assistant Commissioner, Multifamily, appointed effective March 2019. Mr. Lehnhoff was most recently the Director of Portfolio Strategy at CommonBond Communities. He has more than 16 years of local government, municipal finance, and real estate development experience, including extensive work in affordable housing development, Pro Forma analysis, land use planning, economic development, community engagement, and project management. Mr. Lehnhoff has successfully implemented complex and nationally recognized affordable housing development projects to advance community goals. Prior to joining CommonBond, he was a municipal advisor at Ehlers & Associates from October 2016 to September 2018, served as the Vice President of Real Estate at Aeon from August 2010 to October 2016, and was the Community Development Director for the City of Arden Hills from January 2006 to August 2010. Mr. Lehnhoff earned a Master's degree in Urban and Regional Planning from the University of Minnesota Hubert H. Humphrey School of Public Affairs and a Bachelor of Arts degree in Geography from the University of Minnesota Duluth.

The Agency's offices are located at 400 Wabasha Street North, St. Paul, Minnesota 55102, and its general telephone number is (651) 296-7608. The Agency's Investor Relations Representative may be reached at the Agency's general telephone number. The Agency's website address is <http://www.mnhousing.gov>. No portion of the Agency's website is incorporated into this Official Statement.

Independent Auditors

The financial statements of the Agency as of and for the year ended June 30, 2020, included in this Official Statement as Appendix B, have been audited by RSM US LLP, independent auditors, as stated in their report appearing herein. RSM US LLP has not been engaged to perform, and has not performed, any procedures on the financial statements after June 30, 2020. RSM US LLP also has not performed any procedures relating to this Official Statement.

Financial Statements of the Agency

The Agency financial statements included in this Official Statement as Appendix B as of and for the fiscal year ended June 30, 2020 are presented in combined “Agency-wide” form followed by “fund” financial statements presented for its major funds in order to comply with the requirements of Statement No. 34 of the Governmental Accounting Standards Board (“GASB”).

Information regarding the Minnesota State Retirement System (“MSRS”), to which the Agency contributes, is included in Appendix B in the Notes to Financial Statements at pages [61 through 63] under the heading “Defined Benefit Pension Plan.” The Agency’s allocable portion of net pension liability reported at June 30, 2020 with respect to MSRS is \$[10.441] million.

Disclosure Information

The Agency will covenant in a Continuing Disclosure Undertaking for the benefit of the Owners and Beneficial Owners (as defined in Appendix C hereto) of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the “Agency Annual Report”) and to provide notices of the occurrence of certain enumerated events. (There is no other obligated person under the Continuing Disclosure Undertaking.) The Agency must file the Agency Annual Report no later than 120 days after the close of each fiscal year, commencing with the fiscal year ending June 30, 2021, with the Municipal Securities Rulemaking Board, at its EMMA internet repository. The Agency also must file notices of the occurrence of the enumerated events, if any, with EMMA. (See “Appendix C — Summary of Continuing Disclosure Undertaking.”)

During the prior five years, certain disclosure reports filed with EMMA were not timely linked to all outstanding CUSIPs for the associated bonds of the Agency, including (a) the timely filed Agency Annual Report for its fiscal year ended June 30, 2015 was not specifically linked to the CUSIP for the Agency’s Homeownership Finance Bonds, 2015 Series C and one of the CUSIPs for the Agency’s Residential Housing Finance Bonds, 2015 Series C, and (b) the timely filed State of Minnesota Comprehensive Annual Financial Report and Annual Financial Information and Operating Data for the year ended June 30, 2015 was not specifically linked to multiple CUSIPs relating to the Agency’s State Appropriation Bonds (Housing Infrastructure), 2014 Series A.

The specific nature of the information to be contained in the Agency Annual Report or the notices of events, and the manner in which these materials are to be filed, are summarized in “Appendix C — Summary of Continuing Disclosure Undertaking.” The Agency has made these covenants to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the “Rule”).

In addition to the information required by the Continuing Disclosure Undertaking, the Agency also uses its best efforts to prepare a semiannual disclosure report for the Bond Resolution and a quarterly disclosure report for its single family bond resolutions. Recent reports are available at the Agency’s website at <http://www.mnhousing.gov> (click on tab “Investors”), but no information on the Agency’s website is incorporated into this Official Statement. The Agency is also committed to providing appropriate credit information as requested by any rating agency rating the Bonds at the Agency’s request.

Net Position Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund

In addition to its bond funds pledged to the payment of particular bonds by bond resolutions of the Agency, the Agency has also established certain other funds that it has restricted by covenant. Currently, the restricted funds are the General Reserve and the Alternative Loan Fund. The General Reserve contains the Housing Endowment Fund (also referred to as “Pool 1”) and the Agency’s net investment in capital assets. The Alternative Loan Fund,

which is held under the Residential Housing Finance Bond Resolution but is not pledged to pay bonds issued thereunder, comprises the Housing Investment Fund (also referred to as “Pool 2”) and the Housing Affordability Fund (also referred to as “Pool 3”). The net position of the General Reserve and the Alternative Loan Fund is not pledged to the payment of the Bonds or any other debt obligations of the Agency but, to the extent funds are available therein, are generally available to pay any debt obligations of the Agency, including the Bonds.

Subject to the restrictions in the Bond Resolution and its other bond resolutions, the Agency may withdraw excess assets from bond funds held thereunder. To the extent the Agency withdraws excess assets from bond funds, the Agency has pledged to deposit those excess assets in the General Reserve or the Alternative Loan Fund, except for any amounts as may be necessary to reimburse the State for money appropriated to restore a deficiency in any debt service reserve fund.

The Agency has further covenanted that it will use the money in the General Reserve and the Alternative Loan Fund only to administer and finance programs in accordance with the policy and purpose of the Act. This includes creating reserves for the payment of bonds and for loans made from the proceeds thereof, and accumulating and maintaining a balance of funds and investments as will be sufficient for that purpose. To ensure that assets available in the General Reserve and the Alternative Loan Fund provide security for the Agency’s bondowners as covenanted in the bond resolutions, the Agency has established investment guidelines for Pools 1 and 2. The investment guidelines are subject to change by the Agency from time to time in its discretion.

Under the net position requirements and investment guidelines effective January 23, 2014, the required size of Pool 1 (which is intended to be a liquidity reserve) is 1 percent of gross loans receivable (excluding mortgage-backed securities, appropriated loans and loans credited to Pool 3) and the required size of Pool 2 is an amount that would cause the combined net position (exclusive of unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and swaps entered into by the Agency for which the unrealized loss or gain will not be realized if the security or swap is held to maturity or its optional termination date; and realized gains and losses resulting from the purchase and sale of investment securities between Agency funds) in the General Reserve, in Pool 2, and in the funds pledged under bond resolutions to be at least equal to the combined net position of the same funds as of the immediately preceding fiscal year end. Currently, this amount is \$[769.582] million, representing the combined net position of these funds so calculated as of June 30, 2020. Pool 2 is intended to comprise amortizing interest-bearing housing loans or investment grade securities. Pool 1 and Pool 2 represent, with assets pledged to pay bonds of the Agency, the sustainable lending operations of the Agency. Pool 3 represents the more mission-intensive operations of the Agency and is intended to comprise deferred, zero percent and low interest-rate loans and grants and, for unapplied funds, investment grade securities. Pool 3 is not subject to the investment guidelines. Loan activity related to loans financed by funds in Pool 2 and Pool 3 is recorded as part of the Alternative Loan Fund. The Agency approves all interfund transfers. A further discussion of Pools 1, 2 and 3 and the amounts credited thereto as of June 30, 2020 appears in the Notes to Financial Statements of the Agency included in Appendix B to this Official Statement at pages [59 and 60] under the heading “Net Position — Restricted by Covenant.”

[The remainder of this page is intentionally left blank.]

The following summary indicates the revenues earned, the expenses paid, and funds transferred to and from the General Reserve (which contains Pool 1 and net investment in capital assets), for the two most recent audited fiscal years of the Agency (in thousands):

	Fiscal Year Ended <u>June 30, 2020</u>	Fiscal Year Ended <u>June 30, 2019</u>
Revenues		
Fees earned and other income ⁽¹⁾	\$	\$11,212
Interest earned on investments		704
Unrealized gain (loss) on investments	--	--
Administrative reimbursement ^{(2), (3)}		<u>27,730</u>
Total revenues		39,646
Expenses		
Salaries and benefits		15,117
Other general operating expenses		<u>5,359</u>
Total expenses		20,476
Revenues over expenses		19,170
Non-operating transfer of assets between funds ⁽⁴⁾		(19,320)
Change in net position		(150)
Net position beginning of period		<u>14,619</u>
Net position end of period	\$	<u>\$14,469</u>

- (1) Fees earned consist primarily of fees collected in conjunction with the administration of the low income housing tax credit program and HUD contract administration of certain non-Agency financed Section 8 developments.
- (2) The Agency transfers bond funds to the General Reserve for administrative reimbursement in accordance with the Agency's Affordable Housing Plan based on the adjusted assets of the bond funds. Adjusted assets are defined generally as total assets (excluding the reserve for loan loss), unrealized gains or losses on investments (including mortgage-backed securities and interest rate swap agreements), deferred loss on interest rate swap agreements and assets relating to escrowed debt.
- (3) Reimbursement from appropriated accounts consists of the portion of direct and indirect costs of administering the programs funded by the appropriations. The Agency recovers costs associated with administering state appropriations only to the extent of interest earnings on the appropriations. Costs associated with administering federal appropriations generally are recovered from the appropriations.
- (4) The Agency may transfer excess assets from bond funds to the General Reserve to the extent permitted by the resolution or indenture securing bonds of the Agency. In addition, the Agency may transfer funds in excess of the requirement for Pool 1 from the General Reserve to the Alternative Loan Fund. See the comments under the headings "Interfund Transfers" and "Net Position Restricted by Covenant" in the Notes to Financial Statements of the Agency in Appendix B to this Official Statement for additional information.

State Appropriations

Over the years, the State Legislature has appropriated funds to the Agency to be used for low interest loans, grants, programs for low and moderate income persons and families and other housing related program costs. The Agency generally does not pay its general or administrative expenses from appropriated funds, although it can recover its allocable costs of administering State appropriations from investment earnings thereon. The State Legislature has appropriated funds to the Agency for its programs in every biennium since 1975. The Agency has expended or committed most of the appropriations.

Over the biennial periods ended June 30, 2013, 2015, 2017 and 2019, the total appropriations to the Agency aggregated approximately \$392 million. For the biennium ending June 30, 2021, the Legislature has appropriated

approximately \$120.6 million to the Agency, including an increase of approximately 9.5 percent to the Agency's base budget for State appropriations.

The appropriations are not available to pay debt service on the Bonds.

Agency Indebtedness

The principal amount of bonds and notes of the Agency that are outstanding at any time (excluding the principal amount of any refunded bonds and notes) is limited to \$5,000,000,000 by State statute. The following table lists the principal amounts of general obligation indebtedness of the Agency outstanding as of August 31, 2020 [UPDATE]:

	Number of Series*	Final Maturity	Original Principal Amount* (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	11	2049	\$ 53,585	\$ 50,055
Residential Housing Finance Bonds	52	2050	2,540,795	1,712,955
Homeownership Finance Bonds	61	2050	2,510,059	1,639,009
Multifamily Housing Bonds (Treasury HFA Initiative)	1	2051	15,000	13,240
Totals	125		\$5,119,439	\$3,415,259

*Does not include series of bonds or the original principal amount of any bonds that had been, as of August 31, 2020, defeased or paid in full, whether at maturity or earlier redemption.

The payment of principal of and interest on general obligations of the Agency as shown above may be made, if necessary, from the General Reserve or the Alternative Loan Fund. (See "Net Position Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund" above.)

The Agency has entered into liquidity facilities and interest rate swap agreements in respect of its outstanding Residential Housing Finance Bonds that bear interest at a variable rate or floating rate and may be subject to optional and mandatory tender. Certain information related to those variable rate demand bonds, floating rate term bonds, liquidity facilities and swap agreements is included in the Notes to Financial Statements contained in Appendix B to this Official Statement. The Agency does not make any representation as to the creditworthiness of any provider or counterparty on facilities and agreements relating to its variable rate bonds.

Certain of the swap agreements obligate the Agency to make periodic fixed rate payments and entitle the Agency to receive periodic payments based on the United States dollar-denominated London Interbank Offered Rate ("USD LIBOR"). In 2017, the Financial Conduct Authority, a United Kingdom regulatory body which supervises USD LIBOR's administrator, stated that it would not attempt to persuade or compel panel banks that currently submit interest rate information used in the setting of USD LIBOR rates to continue to do so after December 31, 2021. The Federal Reserve System and the Federal Reserve Bank of New York (the "NY Fed") convened its Alternative Reference Rate Committee ("ARRC") in 2014, consisting of public and private United States capital market participants, to identify alternative reference rates as an alternative to USD LIBOR, identify best practices for contract robustness in the interest rate market, and create an implementation plan to support an orderly adoption of new reference rates. The ARRC is currently attempting to address issues related to the anticipated transition from reliance upon USD LIBOR for various market sectors. With respect to derivative agreements, ARRC is proceeding in conjunction with the International Swap Dealer's Association ("ISDA"). Each of the NY Fed and ISDA has made certain information concerning their respective activities relating to USD LIBOR and alternative reference rates on their respective websites. There can be no assurance as to the timing or outcome of these and other USD LIBOR-related regulatory developments, or as to the effects of market reaction to such developments. It is possible that such regulatory developments, or that a cessation of USD LIBOR publication, might affect the determination of certain scheduled and, if applicable, termination payment obligations upon those derivatives agreements.

In 2009, the Agency issued \$13,270,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2009, to finance permanent supportive housing in two different multifamily housing developments. In 2011, the Agency issued \$21,750,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2011, to finance permanent supportive housing in five additional multifamily housing developments. Both series of bonds were issued under a separate indenture of trust, are not general obligations of the Agency and are not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008.

From time to time, beginning in 2012, the Legislature has authorized the Agency to issue housing infrastructure bonds (the “Housing Infrastructure Bonds”) for various purposes payable, like the Nonprofit Housing Bonds, solely from a standing appropriation from the State General Fund and not from any other funds or assets of the Agency. The aggregate principal amount of Housing Infrastructure Bonds that the Agency may issue is \$315,000,000. The Agency has issued 23 series of its State Appropriation Bonds (Housing Infrastructure) in 2013 through 2020 in an aggregate principal amount of \$[182,050,000] under a separate indenture of trust.

On October 28, 2019, the Agency issued its Amended and Restated Bank Note (the “Amended Bank Note”) to Royal Bank of Canada (the “Bank”), pursuant to a Revolving Credit Agreement dated as of June 1, 2018, as amended by a First Amendment to Revolving Credit Agreement dated as of October 28, 2019 (the “Amended Revolving Credit Agreement”), as further amended from time to time, for the purpose of preserving current private activity bond volume cap by refunding the maturing principal or redemption price, as the case may be, of portions of Homeownership Finance Bonds and Residential Housing Finance Bonds previously issued by the Agency (collectively, the “Single Family Housing Bonds”). Upon the refunding of Single Family Housing Bonds with amounts advanced to the Agency pursuant to the Amended Revolving Credit Agreement as evidenced by the Amended Bank Note, funds representing prepayments and repayments of mortgage loans financed with Single Family Housing Bonds, and other amounts available under the applicable bond resolution for the payment of those Single Family Housing Bonds, will be deposited into a cash collateral fund established under a separate amended and restated indenture of trust, as amended, between the Agency and Wells Fargo Bank, National Association, as trustee, as security for the repayment of the principal amount of the Amended Bank Note that has been advanced to the Agency. The Bank agrees to make advances until June 30, 2021, a later date if extended by the Bank or an earlier date upon an event of default or a termination pursuant to the terms of the Amended Revolving Credit Agreement or if the Agency elects an earlier termination. The amount of the advances outstanding and not repaid with respect to the Amended Bank Note bear interest at a variable interest rate equal to one month LIBOR plus a spread (currently 0.30%) and may not exceed \$120,000,000, or the lesser amount then specified in the Amended Revolving Credit Agreement, at any time, and the cumulative amount of the advances made may not exceed \$500,000,000. The obligation of the Agency to pay the interest on, but not the principal of, the Amended Bank Note is a general obligation of the Agency. As of the date hereof, the Agency has requested advances in the aggregate principal amount of \$[390,363,790, \$41,246,858] of which is outstanding.

Agency Continuity of Operations Plan

Certain external events, such as pandemics, natural disasters, severe weather, technological emergencies, riots, acts of war or terrorism or other circumstances, could potentially disrupt the Agency’s ability to conduct its business. A prolonged disruption in the Agency’s operations could have an adverse effect on the Agency’s financial condition and results of operations. To plan for and mitigate the impact such an event may have on its operations, the Agency has developed a Continuity of Operations Plan (the “Plan”). The Plan is designed to (i) provide for the continued execution of the mission-essential functions of the Agency and minimize disruption if an emergency threatens, interrupts or incapacitates the Agency’s operations, (ii) provide Agency leadership with timely direction, control and coordination before, during and after an emergency or similar event, and (iii) facilitate the return to normal operating conditions as soon as practical based on the circumstances surrounding any given emergency or similar event. No assurances can be given that the Agency’s efforts to mitigate the effects of an emergency or other event will be successful in preventing any and all disruptions to its operations.

Cybersecurity

The Agency relies on a complex technology environment to conduct its operations. As a recipient and provider of personal, private and sensitive information, the Agency faces multiple cyber threats including, but not

limited to, hacking, viruses, malware, ransomware, phishing, business email compromise, and other attacks on computers and other sensitive digital networks, systems, and assets. Housing finance agencies and other public finance entities have been targeted by outside third parties, including technologically sophisticated and well-resourced actors, attempting to misappropriate assets or information or cause operational disruption and damage. Further, third parties, such as hosted solution providers, that provide services to the Agency, could also be a source of security risk in the event of a failure of their own security systems and infrastructure.

The Agency uses a layered approach that employs sound operational strategies and security technology solutions to secure against, detect, and mitigate the effects of cyber threats on its infrastructure and information assets. The Agency conducts regular information security and privacy awareness training that is mandatory for all Agency staff. The Agency's Business Technology Support group has management responsibility for all information technology and leads the efforts of the Agency to keep its cyber assets secure. The Agency's Business Technology Support group and contracted services from the Office of MN.IT Services, an agency of the executive branch of the State, regularly conduct risk assessments, audits and tests of the Agency's cybersecurity systems and infrastructure.

Despite its efforts, no assurances can be given that the Agency's security and operational control measures will be successful in guarding against any and each cyber threat and attack, especially because the techniques used by perpetrators are increasingly sophisticated, change frequently, are complex, and are often not recognized until launched. To date, cyber attacks have not had a material impact on the Agency's financial condition, results or business; however, the Agency is not able to predict future attacks or their severity. The results of any attack on the Agency's computer and information technology systems could impact its operations for an unknown period of time, damage the Agency's digital networks and systems, and damage the Agency's reputation, financial performance, and customer or vendor relationships. Such an attack also could result in litigation or regulatory investigations or actions, including regulatory actions by state and federal governmental authorities. The costs of remedying any such damage could be substantial and such damage to the Agency's reputation and relationships could adversely affect the Agency's ability to conduct its programs and operations in the future.

COVID-19 Economic Disruption

The recent global outbreak of COVID-19, a respiratory disease declared to be a pandemic (the "Pandemic") by the World Health Organization, is affecting the national capital markets and may negatively impact the State's housing market and its overall economy. The threat from the Pandemic is being addressed on a national, federal, state and local level in various forms, including executive orders and legislative actions.

On March 13, 2020, the President of the United States declared a national emergency with respect to the Pandemic. In addition, the United States Congress recently enacted several COVID-19-related bills, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, 2020, which provides over \$2 trillion of direct financial aid to American families, payroll and operating expense support for small businesses, and loan assistance for distressed industries, as well as providing funds to and directing the Federal Reserve System to support the capital markets.

With respect to multifamily housing mortgage loans which are (a) insured, guaranteed, supplemented or assisted in any way by the federal government (including any HUD program or related program) or administered by any federal agency or (b) purchased or securitized by Fannie Mae or Freddie Mac (collectively, "Federal Multifamily Loans"), the CARES Act also provides that, if a Federal Multifamily Loan was current as of February 1, 2020 and is not for temporary financing (i.e., not a construction loan), then until the earlier of the termination of the Pandemic or December 31, 2020, the borrower may request a 30-day payment forbearance, and up to two additional 30-day forbearances. During the period of any such forbearance, the borrower may not evict any tenant solely for nonpayment of rent. Such relief follows actions previously taken by the Federal Housing Finance Agency, which announced that Fannie Mae and Freddie Mac would offer mortgage loan forbearance to multifamily property owners on the condition that they suspend all evictions for renters who cannot pay their rent because of COVID-19. That forbearance is available for up to six months.[As of __, 2020, the Agency has granted forbearance approvals for __ Mortgage Loans financed under the Program in an aggregate principal amount of \$_____. Of the forbearance approvals, __ in an aggregate principal amount of \$_____ are financed by, or pledged as additional security for, the Bonds, which is approximately _____ percent of the principal amount of Mortgage Loans held under the Bond Resolution. It may receive and approve additional forbearance requests relating to Mortgage Loans during the Pandemic.] The Agency also has provided loans that secure outstanding bonds of the Agency under its single family

housing program, many of which loans are covered by the relief provisions of the CARES Act, and has granted forbearance approvals when required. The Agency's loans provided under its home improvement program and its monthly payment loan program, as well as some loans for single family housing that are not pledged as security for any debt of the Agency, are not affected by the relief provisions of the CARES Act. However, the Agency has granted and may choose to grant forbearance approvals for certain of these loans during the Pandemic. (See "Other Programs")

The CARES Act directs the Federal Reserve Bank to provide liquidity to the financial system through a new facility to purchase certain new issuances of securities by eligible issuers, including housing finance agencies and other state and local governments. Such injection of liquidity follows recent actions by the Federal Reserve Bank, including the purchase of U.S. Treasury securities and the Government National Mortgage Association ("GNMA"), Fannie Mae and Freddie Mac mortgage-backed securities, facilitating the flow of credit to municipalities by expanding its Money Market Mutual Fund Liquidity Facility to include a wider range of securities, including municipal variable rate demand notes (such as variable rate demand obligations of housing finance agencies).

On March 13, 2020, the Governor of the State declared a peacetime emergency with respect to the Pandemic. By various executive orders, which have the force and effect of law during a peacetime emergency, the Governor has directed: residents of the State to first stay at home and shelter in place and subsequently permitting residents to conduct limited activities outside the home; the closure of schools for the remainder of the current school year; the closure and then partial re-opening of restaurants, bars, other public accommodations and certain non-essential businesses; and the suspension of evictions and lease terminations; in each instance subject to further change. The Governor has extended the peacetime emergency beyond the initial 30-day period, may extend it further and may issue additional executive orders pursuant to his authority during that emergency. The peacetime emergency, since extended beyond 30 days, may be terminated by majority vote of both houses of the legislature of the State.

An executive order of the Governor designated the operation of the Agency as a critical service and Agency personnel, though almost exclusively teleworking, are continuing all operations in order to provide the Agency's programs (see "Agency Continuity of Operations Plan" above). At this time the Agency cannot predict (i) the duration or extent of the Pandemic; (ii) the duration or expansion of any foreclosure or eviction moratorium affecting the Agency's ability to foreclose and collect on delinquent mortgage loans; (iii) the number of mortgage loans that will be in forbearance or default as a result of the Pandemic and subsequent federal, state and local responses thereto, including the CARES Act; (iv) whether and to what extent the Pandemic may disrupt the local or global economy, real estate markets, manufacturing, or supply chain, or whether any of those types of disruption may adversely impact the Agency or its operations; (v) whether or to what extent the Agency or other government agencies may provide additional deferrals, forbearances, adjustments, or other changes to payments on mortgage loans; or (vi) the effect of the Pandemic on the State budget, or whether any such effect may adversely impact the Agency or its programs. The Agency is monitoring and assessing the impact on its programs, operations and financial position, including its ability to continue to make and finance Mortgage Loans. However, the continuation of the Pandemic and the resulting containment and mitigation efforts could have a material adverse effect on the Agency's programs, operations and finances.

THE DEVELOPMENT

The Development

The Agency intends to use the proceeds of the Series Bonds to make a short-term first lien bridge Mortgage Loan that will finance a portion of the costs of the acquisition and construction of a multifamily housing development. The Development, to be known as Le Sueur Meadows II, will be the acquisition and construction of four two-story townhome buildings, located in Le Sueur, Minnesota. The Development will have 39 residential units. The total development cost is estimated to be approximately \$11.24 million. The Development is expected to be completed by [January 2022]. The Development will be acquired and constructed by CB LSM II Limited Partnership, a Minnesota limited partnership, or another entity affiliated with CommonBond Communities, a Minnesota nonprofit corporation.

The Agency expects to use the proceeds of the Series Bonds to be deposited in the Mortgage Loan Account to make the bridge Mortgage Loan with respect to the Development on the date of issuance of the Series Bonds. The bridge Mortgage Loan, in the principal amount of \$5.665 million,* will mature in full on January 1, 2023.* The bridge Mortgage Loan will not be insured by FHA or secured by any other third-party credit enhancement, but the Agency expects it to be repaid from a long-term end loan from the Agency in the principal amount of \$1.671 million, a portion of two deferred repayment loans from the Agency in the aggregate principal amount of approximately \$6.347 million and a portion of the equity contributions from the tax credit investor, which is purchasing the low income housing tax credits described below. The bridge Mortgage Loan will be secured in part by a guaranty from CommonBond Communities.

As a result of the issuance of the Series Bonds, all of the dwelling units in the Development will be eligible for low income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended. Occupancy in all of those dwelling units will be limited to households with incomes at initial occupancy at or below 60 percent of the area median income, adjusted for household size, for a period of 40 years.

Four of the dwelling units will be reserved for persons with persons with disabilities and will be benefitted by a Housing Support contract provided by Le Sueur County Human Services. In addition, four of the dwelling units will be reserved for households who have experienced long-term homelessness with project-based Section 8 Housing Choice Vouchers provided by Le Sueur County Housing and Redevelopment Authority.

Estimated Sources and Uses of Series Bond Proceeds and Agency Funds

The estimated sources and uses of proceeds of the Series Bonds and funds to be provided by or through the Agency are as follows:

Sources:

Principal Amount of Series Bonds	\$5,665,000*
Funds Available to the Agency.....	_____
Total Sources of Funds.....	<u>\$_____.</u>

Uses:

Series B Mortgage Loan Account	\$5,665,000*
Revenue Fund	_____
Costs of Issuance	_____
Total Uses of Funds	<u>\$_____.</u>

THE SERIES BONDS

The Series Bonds will be fully registered bonds initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”) which will act as securities depository for the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, serves as Trustee under the Bond Resolution.

The Series Bonds will be issued in the denominations of \$5,000 or any integral multiple thereof. The Series Bonds mature, subject to redemption as herein described, on the date and in the amount set forth on the inside front cover hereof.

The Series Bonds bear interest from their dated date, payable semiannually on February 1 and August 1 of each year, commencing February 1, 2021,* at the rate set forth on the inside front cover hereof until payment of the principal or redemption price of the Series Bonds. As long as the Series Bonds are in book-entry form, interest on the Series Bonds will be paid by moneys wired by the Trustee to DTC, or its nominee, as registered owner of the Series Bonds, and DTC will redistribute that interest. (See Appendix E – “Book-Entry-Only System.”)

*Preliminary, subject to change.

For every exchange or transfer of Series Bonds, whether temporary or definitive, the Agency or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to that exchange or transfer.

Special Redemption at Par

The Agency may redeem the Series Bonds, at its option, in whole or in part on any date, at a redemption price equal to the principal amount thereof plus accrued interest, without premium, (i) from unexpended proceeds of the Series Bonds not used to finance the Development; or (ii) in the event the Agency receives or recovers Recovery Payments (as defined in Appendix D) relating to the Development. The Agency will apply any unexpended proceeds or Recovery Payments to the redemption of Series Bonds, as determined by the Agency. If Recovery Payments are not sufficient to redeem all Outstanding Series Bonds, the Agency may apply other funds to redeem the Series Bonds in addition to the Recovery Payments.

Optional Redemption

The Agency may redeem the Series Bonds at its option, in whole or in part, on any date on or after February 1, 2022,* in amounts as the Agency may designate, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium.

General Redemption Provisions

Any Series Bonds to be redeemed will be redeemed only upon receipt by the Trustee of a certificate signed by an authorized officer of the Agency stating the principal amount of the Series Bonds to be redeemed. If less than all Series Bonds are to be redeemed, the Series Bonds to be redeemed are to be selected in \$5,000 principal amounts at random by the Trustee. The Agency will not at any time cause Series Bonds to be optionally redeemed if this would have any material adverse effect on its ability to pay when due the principal of and interest on the Bonds Outstanding after the redemption.

The Trustee is required to mail a copy of the notice of redemption to the registered owner of any Series Bond called for redemption at least 30 days prior to the redemption date. Any defect in or failure to give the required mailed notice of redemption will not affect the validity of any proceedings for the redemption of Series Bonds not affected by that defect or failure.

SECURITY FOR THE BONDS

Outstanding Bonds, including the Series Bonds, are secured as provided in the Bond Resolution by a pledge and a grant of a security interest in (a) all proceeds of the sale of Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds and notes), (b) all Mortgage Loans and Investments made or purchased from the proceeds, (c) all Revenues as defined in the Bond Resolution, and (d) money, Investments, and other assets and income held in and receivables of Funds established by or pursuant to the Bond Resolution. The Bonds, including the Series Bonds, are also general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or Bonds, and federal or State laws heretofore or hereafter enacted pledging particular funds for a specified purpose. The pledge and security interests granted by the Bond Resolution are for the equal benefit, protection and security of Holders of all Bonds, including the Series Bonds.

The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Bonds, including the Series Bonds, and the Series Bonds are not a debt of the State.

*Preliminary, subject to change.

Mortgage Loans

The Bond Resolution requires, except in certain circumstances hereinafter described, that each Mortgage Loan be secured by a first mortgage lien (subject to permitted encumbrances) on the real property, or leasehold interest of the Mortgagor in the real property under a lease with a term at least twice the length of the term of the Bonds, that is the site of the Development financed by that Mortgage Loan, and all improvements thereon. At the initial closing for each Development, the Agency receives a recorded Mortgage and a mortgagee's title insurance policy in the amount of the Mortgage Loan. The Agency may also participate with other parties in the making of a Mortgage Loan if the Agency's mortgage lien, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Bond Resolution also permits the Agency, if it holds a Mortgage that constitutes a first mortgage lien on a Development, to make an additional Mortgage Loan for the Development and secure the additional Mortgage Loan by a Mortgage on a parity with or junior and subordinate to the first lien Mortgage held by the Agency. In addition, the Bond Resolution allows the Agency to make Subordinate Mortgage Loans with respect to a Development upon the terms and conditions as the Agency may deem appropriate, but solely from amounts that would otherwise be available to be removed by the Agency from the lien of the Bond Resolution.

Under the Bond Resolution, there will at all times be scheduled payments of principal and interest on Mortgage Loans pledged under the Bond Resolution that, when added to any other legally enforceable payments on Mortgage Loans or with respect to the Bond Resolution (including Counterparty Hedge Payments), and interest and other income estimated by the Agency to be derived from the investment or deposit of money available therefor in any Fund or Account created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on all Outstanding Bonds (excluding from the calculations all amounts scheduled to be received pursuant to the provisions of Subordinate Mortgage Loans). In making a determination as of any date that this covenant is met, the Agency may make assumptions as to future events (including, as applicable, assumptions as to the amounts of Agency Hedge Payments and Counterparty Hedge Payments and the amount of interest payable on Variable Rate Bonds), which assumptions must be based upon the Agency's reasonable expectations as of the date of the determination. The Agency may forgive a portion of the interest on any Mortgage Loan provided that, after giving effect to the reduction and all similar reductions then in effect, the Agency continues to comply with the covenant.

The scheduled payments of the Principal Installments of and interest on the Bonds are generally based on the receipt of scheduled payments by the Agency on the Mortgage Loans and any Subordinate Mortgage Loans, together with capitalized interest and estimated investment income of certain Funds and Accounts established by the Bond Resolution, to the extent provided therein. The ability of the Mortgagors to make scheduled payments to the Agency depends, among other things, on the Developments achieving and sustaining occupancy and rental levels necessary to generate rental income that, together with any applicable subsidies, the Agency expects will be sufficient to meet the required loan payments, to fund required reserves and escrows and to meet operating expenses. Under the Bond Resolution, the Agency (unless otherwise required by any agency of the United States guaranteeing, insuring or otherwise assisting in the payment of the Mortgage Loan or Subordinate Mortgage Loan) may give its consent to Prepayment of a Mortgage Loan or Subordinate Mortgage Loan only if certain conditions as described under the caption "Summary of Certain Provisions of the Bond Resolution — Mortgage Provisions and Conditions — Prepayments" in Appendix D hereto have been met. If any Mortgage Loan or Subordinate Mortgage Loan goes into default or investment income differs from the amounts estimated to be received, the amount of money available for the payment of Principal Installments of and interest on the Bonds may be adversely affected; however, as is described elsewhere in this Official Statement, moneys may be available from other sources, including the Debt Service Reserve Fund.

Appendix A to this Official Statement contains a brief description of the Mortgage Loans outstanding as of June 30, 2020 that have been financed by Bonds or that have been pledged as additional security under the Bond Resolution for the payment of Outstanding Bonds.

Debt Service Reserve Fund

No funds will be credited to the Debt Service Reserve Fund with respect to the Series Bonds (and the Debt Service Reserve Requirement in respect of the Series Bonds will be \$0.00), since, in addition to the other security provided pursuant to the Bond Resolution, payment of principal with respect to the bridge loan funded by the Series Bonds will be secured as described under "The Development."

Upon issuance of the Series Bonds, the aggregate Debt Service Reserve Requirement for the Bond Resolution will be approximately \$[1,156,006] and the value of the investments in the Debt Service Reserve Fund as calculated under the Bond Resolution will not be less than the aggregate Debt Service Reserve Requirement. The Debt Service Reserve Fund secures all Bonds issued under the Bond Resolution, including the Series Bonds, on an equal basis.

The Act provides that the Agency may create and establish one or more debt service reserve funds for the security of its bonds. The Agency will use moneys held in or credited to a debt service reserve fund solely for the payment of principal of bonds of the Agency as the same mature, the purchase of those bonds, the payment of interest thereon or the payment of any premium required when the bonds are redeemed before maturity, provided that the moneys in that fund must not be withdrawn therefrom at any time in an amount as would reduce the amount reasonably necessary for the purposes of the fund, except for the purpose of paying principal and interest due on the bonds secured by the fund for the payment of which other moneys of the Agency are not available. The Agency may not issue any additional bonds or notes that are secured by a debt service reserve fund if the amount in that debt service reserve fund or any other debt service reserve fund at the time of that issuance does not equal or exceed the minimum amount required by the resolution creating that fund unless the Agency deposits in each fund at the time of the issuance from the proceeds of the bonds or otherwise an amount that, together with the amount then in the fund, will be no less than the minimum amount so required. The Act further provides that:

In order to assure the payment of principal and interest on bonds and notes of the agency and the continued maintenance of all debt service reserve funds created and established therefor, the agency shall annually determine and certify to the governor, on or before December 1, (a) the amount, if any, then needed to restore each debt service reserve fund to the minimum amount required by the resolution or indenture establishing the fund, not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all bonds or notes which are then outstanding and secured by such fund; and (b) the amount, if any, determined by the agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, for the payment of the principal and interest due and payable in that year on all then outstanding bonds and notes secured by a debt service reserve fund the amount of which is then less than the minimum amount agreed. The governor shall include and submit to the legislature, in the budget for the following fiscal year, or in a supplemental budget if the regular budget for that year has previously been approved, the amounts certified by the agency

In the opinion of Bond Counsel and counsel to the Agency, the Legislature is legally authorized, *but not legally obligated*, to appropriate those amounts to the Debt Service Reserve Fund.

Additional Bonds

The Bond Resolution permits the issuance of additional Bonds, upon the adoption of a series resolution, to provide funds for the purpose of financing Mortgage Loans for Developments under the Agency's programs of making Mortgage Loans and, in addition, to refund outstanding Bonds or other obligations issued to finance Mortgage Loans, upon certain conditions contained therein (see Appendix D – "Summary of Certain Provisions of the Bond Resolution—Additional Bonds"), without limitation as to amount except as may from time to time be provided by law. Any additional Bonds issued under the Bond Resolution will be secured on an equal basis with the Series Bonds and the Outstanding Bonds and entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

Nothing in the Bond Resolution prohibits the financing of other multifamily housing developments under other bond resolutions.

State Pledge Against Impairment of Contracts

The State in the Act has pledged to and agreed with the Bondholders that it will not limit or alter the rights vested in the Agency to fulfill the terms of any agreements made with them or in any way impair the rights and remedies of the Bondholders until the Bonds, together with the interest thereon and on any unpaid installments of

interest, and all costs and expenses in connection with any action or proceeding by or on behalf of those Holders, are fully met and discharged.

THE RENTAL HOUSING PROGRAM

The Bond Resolution is currently the primary source of funds borrowed by the Agency to fund its multifamily housing programs. The proceeds of Bonds issued under the Bond Resolution are lent by the Agency to for-profit, nonprofit and limited profit sponsors that agree to construct or rehabilitate the Developments and lease the dwelling units therein principally to persons and families with low and moderate incomes.

The precise nature of the multifamily housing programs financed under the Bond Resolution has varied over the years and is expected to continue to vary based on the housing needs of the State of Minnesota and resources available to address those needs. There follows a description of the housing programs for which there are loans outstanding that were either funded from Bond proceeds under the Bond Resolution or are pledged as additional security under the Bond Resolution. All of the Developments financed under the Bond Resolution in recent years have been processed under the Low and Moderate Income Rental Program, either as long-term loans or as bridge loans. Recently originated loans have included the acquisition and construction of rental properties that will be eligible for federal low-income housing tax credits and loans for the preservation of existing federal subsidies under the Section 8 program.

The existing Developments financed by Outstanding Bonds have been originated under the following programs:

- Low and Moderate Income Rental Program (including HUD Risk-Sharing Program)
- Section 8 Housing Assistance Payment New Construction/Substantial Rehabilitation Program (Uninsured Developments)/Asset Management Program

In addition to the programs listed above, loans contributed as additional security under the Bond Resolution have been financed under the following program:

- Apartment Renovation Mortgage Program
- Market Rate Mortgage Loan Program

[The remainder of this page is intentionally left blank.]

The following table provides summary data regarding the outstanding loans financed or pledged as a portion of the security for the Rental Housing Bond Resolution as of June 30, 2020 for the programs as listed above:

Rental Housing Program Mortgage Loan Program Summary as of June 30, 2020

Program	<u>Number of Loans</u>	<u>Number of Units</u>	<u>Outstanding Loan Amount</u>	<u>Percentage of Total Amount</u>
Section 8 Housing Assistance Payments Program *	32	1,530	\$ 21,500,480	14.21%
Apartment Renovation Mortgage Program	1	48	70,050	0.05
Low and Moderate Income Rental Program **	49	3,911	128,105,768	84.70
Market Rate Mortgage Loan Program ...	<u>4</u>	<u>216</u>	<u>1,569,640</u>	<u>1.04</u>
	<u>86</u>	<u>5,705</u>	<u>\$151,245,938</u>	<u>100.00%</u>

*Includes six HUD Risk-Sharing loans for Developments with 538 aggregate units and an aggregate outstanding loan amount of \$17,600,670.

**Includes 30 HUD Risk-Sharing loans for Developments with 2,664 aggregate units and an aggregate outstanding loan amount of \$73,569,826 and six bridge mortgage loans for Developments with 333 units and an aggregate outstanding loan amount of \$31,165,000.

Low and Moderate Income Rental Program

The Low and Moderate Income Rental Program (the “LMIR Program”) is the program under which the Agency is currently making loans funded from the proceeds of Bonds issued under the Bond Resolution. Some of the loans involve the preservation of existing federal housing subsidies. The federal housing subsidies preserved in connection with loans under the LMIR Program have included Section 8 project-based assistance; this subsidy program is described below. Most recent developments financed under this program have also benefited from the receipt of federal low-income housing tax credits.

In the LMIR Program, which is administered by the Multifamily Division of the Agency, the Agency uses the proceeds of Bonds issued under the Bond Resolution to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The Agency, under the LMIR Program, may also use other available funds to provide permanent and construction loan financing for the acquisition/rehabilitation, refinance/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds or other available funds are lent by the Agency to nonprofit or limited profit entities that agree to construct or rehabilitate the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. Several of the loans made under the LMIR Program have been insured under the FHA Section 223(a)(7) and 241 insurance programs. Generally, loans to Developments financed under the LMIR Program also receive one or more low- or non-interest bearing, non-amortizing subordinate loans that facilitate keeping rents below market rate levels and reduce the amount of amortizing debt.

In the Agency’s administration of its LMIR Program, the Agency has made Mortgage Loans of up to 100 percent of total development costs. Mortgage Loans for Developments are generally made for terms of 30 to 40 years or are made as short-term loans payable when construction or rehabilitation is completed.

HUD Risk-Sharing Program

As part of the LMIR Program under the Bond Resolution, the Agency has made and expects to make Mortgage Loans under the Department of Housing and Urban Development Housing Finance Agency Risk-Sharing Program for Insured Affordable Multifamily Project Loans (“HUD Risk-Sharing Program”). Section 542(c) of the Housing and Community Development Act of 1992, as amended (the “Risk-Sharing Act”) authorized the Secretary of the Department of Housing and Urban Development (“HUD”) to enter into risk-sharing agreements with qualified state or local housing finance agencies (“HFAs”) to enable those HFAs to underwrite and process loans for which HUD, acting through the Federal Housing Administration (“FHA”), will provide full mortgage insurance for eligible projects. HUD has promulgated regulations at 24 C.F.R. Part 266 (the “Regulations”) pursuant to the Risk-Sharing Act. The HUD Risk-Sharing Program allows HFAs to carry out certain HUD functions, including the assumption of underwriting, loan management and property disposition functions and responsibility for defaulted loans, and provides for reimbursement of HUD for a portion of the loss from any defaults that occur while the HUD contract of mortgage insurance is in effect.

The HUD Risk-Sharing Program requires that an interested HFA first be approved as a qualified housing finance agency. Upon notification of approval as a qualified HFA, the HFA must execute a risk-sharing agreement between the Commissioner of FHA and the HFA. The risk-sharing agreement must state the agreed upon risk apportionment between HUD and the HFA, the number of units allocated to the HFA, a description of the HFA’s standards and procedures for underwriting and servicing loans, and a list of HFA certifications designed to assure its proper performance.

Projects eligible to be insured under the HUD Risk-Sharing Program include projects receiving Section 8 or other rental subsidies, single room occupancy projects, board and care/assisted living facilities and elderly projects. Transient housing or hotels, projects in military impact areas, retirement service centers, and nursing homes or intermediate care facilities are specifically excluded from eligibility for insurance under the program.

The Agency has been designated by HUD as a “qualified HFA” under the Risk-Sharing Act. The Agency has entered into a risk-sharing agreement with HUD dated as of May 3, 1994 (the “Risk-Sharing Agreement”) which sets out the terms for the Agency’s participation in the HUD Risk-Sharing Program. The Agency has a “Level I” and “Level II” approval under the regulations, which means the Agency agrees to reimburse HUD for 50 percent, or from 10 percent to 50 percent, of any losses incurred as a result of a default under a HUD Risk-Sharing Program loan. “Level I” approval permits the Agency to use its own underwriting standards and loan terms and conditions (as disclosed and submitted with its application) to underwrite and approve loans with review and approval by the local HUD office. Most of the Developments committed to be financed to date under the HUD Risk-Sharing Program have been insured based upon a 50/50 split of any losses.

Prior to funding of a Mortgage Loan by the Agency, HUD issues a Risk-Sharing Firm Approval Letter under which it agrees to endorse the Mortgage Note either at closing (in which case all advances are insured) or upon completion of construction and satisfaction of various conditions relating to the Mortgage Loan, including funding of all anticipated sources of funds. If the Mortgage Note is not endorsed until completion of construction, HUD is not obligated to reimburse the Agency for any losses that occur as a result of a default under the loan documents prior to completion of construction and endorsement of the Mortgage Note for insurance by HUD.

A mortgagee under an FHA-insured mortgage is entitled to receive the benefits of insurance after the mortgagor has defaulted and that default continues for a period of 30 days. If the default continues to exist at the end of the 30-day grace period, the mortgagee is required to give HUD written notice of the default within 10 days after that grace period and monthly thereafter, unless waived by HUD, until the default has been cured or the Agency has filed an application for an initial claim payment. Unless a written extension is granted by HUD, the Agency must file an application for initial claim payment (or, if appropriate, for partial claim payment) within 75 days from the date of default unless extended at the request of the HFA. The initial claim amount is based on the unpaid principal balance of the mortgage note as of the date of default, plus interest at the mortgage note rate from the date of default to the date of initial claim payment. HUD must make all claim payments in cash. The initial claim payment is equal to the initial claim amount, less any delinquent mortgage insurance premiums, late charges and interest assessment under the Regulations. Within 30 days of the initial claim payment, the HFA must use the proceeds of the initial claim payment to retire any bonds or any other financing mechanisms and must also issue to HUD a debenture,

payable in five years unless extended, in an amount equal to the amount of the initial claim payment, representing the HFA's reimbursement obligation to HUD under its Risk-Sharing Agreement.

The Regulations provide that not later than 30 days after either (1) foreclosure sale or sale after acceptance of a deed-in-lieu of foreclosure or (2) expiration of the term of the HFA debenture, loss on the mortgaged property is determined and allocated between HUD and the HFA in accordance with their respective percentages of risk specified in the Mortgage Note and the Risk-Sharing Agreement.

The Agency Regulatory Agreement

The uninsured Section 8-assisted Developments and Developments financed under the LMIR and HUD Risk-Sharing Programs are all subject to regulatory agreements with the Agency regulating their rents, distributions, occupancy, management and operation. The regulatory agreements are in effect during the entire term of the Mortgage Loan. Under the regulatory agreements, a limited-profit or nonprofit owner may not make distributions to its partners or members in any one year in excess of a percentage of its initial equity in a Development. The allowable percentage of equity ranges from 6 percent to 15 percent, depending on the program under which the Mortgage Loan was financed.

Section 8 Program

General Description

Under the Section 8 Program, HUD provides for the payment of a subsidy for the benefit of low income families, which are defined generally as those families whose incomes do not exceed 80 percent of the median income for the area, as determined by HUD. Until recent years, almost all of the Developments with Section 8 subsidies financed by the Agency were financed from a set-aside from HUD under which the Developments were underwritten and financed by the Agency. The Agency entered into Traditional Contract Administration ("TCA") Annual Contributions Contracts ("ACC"s) with HUD and Section 8 Housing Assistance Payments Contracts ("HAP Contracts") with owners under which the subsidy payments were made on behalf of tenants in the Developments. Pursuant to the ACC for each Development, HUD committed funding through the entire term of the HAP Contract. The Agency receives monthly subsidy payments with respect to each assisted dwelling unit, and then in turn disburses or credits monthly housing assistance payments to the owner of the Development under the HAP Contract. In addition, several of these Developments also received an Agency first mortgage loan, some of which were insured under an FHA insurance program. After the initial contract expiration, many of these HAP Contracts have been renewed for a period of 20 years. The owner has the option to renew for a shorter term. It is anticipated, but not assured, that HUD will continue to provide the opportunity for owners to renew expiring HAP Contracts under the provisions of Section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997, as amended. In recent years, the Agency has provided new financing (deferred or amortizing) to Developments with HAP Contracts, many in conjunction with a Declaration of Covenants, Conditions and Restrictions pursuant to which the owner has agreed to continuously renew the HAP Contract through the maturity date of the Agency's Mortgage Loan. It is anticipated, but not assured, that the federal government will continue to provide these owners with the option to renew their HAP Contracts upon expiration. Renewals of HAP Contracts beyond the expiration of the initial contract term are subject to annual appropriations and spending authority in the federal budget. Contracts to convert tenant-based HUD vouchers or certificates into project-based assistance (as described below) are also subject to annual appropriation and spending authorization in the federal budget.

HAP Contract Term for State Agency Set-Aside Program

Under HUD regulations, the initial terms of the HAP Contracts for uninsured Developments financed under the state agency set-aside program were for either 30 or 40 years, with provisions for renewal for five-year periods within the 30- or 40-year term. The term of the initial ACC is the same as the initial HAP Contract term. Nonrenewal of the Section 8 HAP Contract under federal law and Minnesota state statutes requires proper notification to the residents, the applicable city, the Metropolitan Council Housing and Redevelopment Authority, the Agency and HUD. This nonrenewal (opt-out) of the HAP Contract is independent of the Development's existing first mortgage financing. (See "Certain Information Regarding Housing Assistance Payment Contracts – Certain Recent Developments.") Although the Section 8 housing assistance payments are made to the owner and in effect represent rental income, the HAP Contract may, with HUD's consent, be assigned as security by the owner to the

first mortgage lender for the Development. All of the Developments with HAP Contracts within the Agency's first mortgage loan portfolio are assigned to the Agency as security for the Mortgage Loan. HAP Contracts may not be terminated by HUD if the Mortgage Loan on the Development goes into default, so long as the owner has not breached any of the owner's obligations under the HAP Contract. In the event of a breach of the HAP Contract by the owner, HUD may abate subsidy payments or terminate the HAP Contract after giving the owner reasonable opportunity to comply with the requirements of the HAP Contract. Under HUD regulations, the HAP Contract may be assigned to a new owner of the Development. HUD may also determine that the HAP Contract may be terminated or may reassign the Section 8 housing assistance payments subsidy to another development. If the Section 8 subsidy is assigned to another development, the HAP Contract and the ACC will continue in effect and housing assistance payments will continue in accordance with the terms of the HAP Contract. (See "Certain Information Regarding Housing Assistance Payment Contracts – Certain Recent Developments.")

Certain Information Regarding Housing Assistance Payment Contracts

General

The following discussion provides certain information with regard to the Section 8 program and HAP Contract requirements that may affect payments made by HUD pursuant to the HAP Contracts. That information is not comprehensive or definitive and, as appropriate, is qualified in its entirety by reference to the United States Housing Act of 1937, as amended (the "Housing Act"), and HUD Section 8 Program Guidebooks, Handbooks, Notices, and Memoranda.

Adjustments in Contract Rents

The HAP Contract defines the type of contract rent adjustment that the Development can request. For HAP Contracts in the Agency's Traditional Contract Administration portfolio that are in their original term, owners can request an Annual Adjustment Factor Rent Adjustment based on the annual adjustment factor published by HUD. Interim revisions may be made where market conditions warrant. The annual adjustment factor is applied on the anniversary date of each HAP Contract to contract rents, resulting in upward adjustment. Pursuant to federal legislation enacted in 1997, if the contract rents for a Development exceed the applicable HUD fair market rents, then contract rents may not be increased beyond comparable market rents (plus the initial differential between the initial contract rents and the comparable rents). The comparable rents are determined by independent appraisals of Developments in the form of a Rent Comparability Study submitted by the owner. In addition, special additional adjustments may be granted to reflect increases in the actual and necessary expenses of owning and maintaining a Development resulting from substantial "and general increase in real property taxes, assessments, utility rates and hazard insurance increases, where the increased cost is not sufficiently covered by the annual AAF adjustment." HUD Notice H 2002-10. Adjustments may not result in material differences between rents charged for assisted units and unassisted units of similar quality and age in the same market area, except to the extent of the initial difference at the time of contract execution. Under current law, "[t]he Secretary may not reduce the contract rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under this section, unless the project has been refinanced in a manner that reduces the periodic payments of the owner." 42 U.S.C. § 1437f(c)(1)(C). There can be no assurance that increases in contract rents will result in revenues sufficient to compensate for increased operating expenses of the Developments. There can be no assurance that there will not be a decrease in contract rents. A rent decrease may affect the ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Bond Resolution. (See "Certain Recent Developments.")

Limitations on Increases in Housing Assistance Payments

An increase in contract rents, because of the application of an annual adjustment factor or a special additional adjustment, will normally result in an increase in Housing Assistance Payments payable to the owner under the HAP Contract. The annual maximum housing assistance payments are initially limited to the initial contract rents. A project account is required to be established and maintained by HUD, in an amount determined by HUD, and the account must be established and maintained consistent with its responsibilities under the Housing Act. Whenever the estimated annual housing assistance payment exceeds the annual maximum housing assistance commitment and would cause the amount in the project account to be less than 40 percent of that maximum

commitment, HUD is required to take additional steps authorized by Section 8(c)(6) of the Housing Act to assure that housing assistance payments will be increased on a timely basis. Section 8(c)(6) of the Housing Act authorizes “the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts.” Based on this guidance, HUD does not increase annual contributions contract authority until the project account has been exhausted.

Certain Recent Developments

In July 2002, HUD announced an interpretation of its Office of General Counsel with respect to the form of HAP Contract in use prior to 1979 (the “Old Regulation HAP Contract”). This interpretation provides that the HAP Contract terminates upon any prepayment of the original permanent financing of the related development, including any refinancing that included prepayment of the first Mortgage Loan. HUD also stated that it would agree to amend any HAP Contract to eliminate that termination. All of the first mortgage loans with this form of HAP Contract in the Agency’s TCA portfolio were provided by the Agency. There are many Developments with Agency mortgage loans that have been prepaid where HUD has continued to make payments under the HAP Contracts during the years since the Agency loans were prepaid. It is the Agency’s understanding that current HUD practice is to approve the continuation of HAP Contracts upon payment of the original financing when the owner has elected to remain in the Section 8 program. In 2015, HUD issued the final version of the Section 8 Renewal Policy Guide Book. Chapter 16 of the Guide Book reiterates the Office of General Counsel interpretation of the Old Regulation HAP Contract and gives prepaying owners the option to amend the HAP Contract to extend the term to the originally scheduled maturity date, renew the HAP contract under the Multifamily Assisted Housing Reform and Affordability Act (“MAHRA”), or opt out of the Section 8 program. Contracts that are subject to Chapter 16 will be renewed and amended as outlined in the newly revised chapter. At this time, the Agency cannot predict the potential risk for opt-outs under the provisions of Chapter 16; however, the Agency handles potential opt-outs proactively to support the Agency’s priority for preservation of federally assisted housing.

In recent years, there have been numerous pronouncements from HUD officials and various elected officials as to the future of HUD and the Section 8 program. The scope of these pronouncements has ranged from a total elimination of HUD and the Section 8 program to a restructuring of HUD and the reduction in funding of the Section 8 program. In addition, the consolidation and alignment of HUD’s programs and the transfer of certain administrative responsibilities for HUD programs to contract administrators, state and local governments and other entities continue to be proposed. (Note that HUD has contracted project-based Section 8 program administration services to state and local governments and other entities since 1999.) Furthermore, Congress continues to propose reductions in all federal spending, including funding for HUD and its programs.

HUD officials have from time to time proposed to Congress that it repeal the provision of the Housing Act prohibiting the Secretary of HUD from reducing contract rents below the current contract rents in effect as of April 15, 1987. (See “Adjustments in Contract Rents.”) It is not clear whether such a repeal would withstand a constitutional challenge. The effect of repealing those provisions would be to permit HUD to reduce the contract rents for Section 8 Developments to “market rents,” but not lower than the initial contract rents, plus the initial difference, approved by HUD for the Development. Reductions in current contract rents have occurred and continue to occur due to HUD’s changes to its Section 8 Renewal Policy Guide Book and its 4350.1 Handbook (Chapter 7).

At this time, the Agency cannot predict the terms of the legislation, if any, that may be enacted with respect to HUD. Legislation could significantly change HUD’s structure, its administration and its programs (including the Section 8 program), and the funding of HUD and its programs. The Agency also cannot predict whether any legislation, if enacted, would adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds (including the Series Bonds) with amounts pledged under the Resolutions.

Over the years, there have been several court decisions with respect to the Section 8 program and HAP Contracts. The United States Supreme Court, in its 1993 decision, *Cisneros v. Alpine Ridge Group*, held that HAP Contracts between private landlords and HUD did not prohibit the use of comparability studies with private market rents to impose an independent cap on formula-based rent adjustments. In a January 1997 decision, *National Leased Housing Association v. United States*, the United States Court of Appeals for the Federal Circuit upheld a decision of the Court of Claims that the “overall limitation” provision contained in the rent adjustment section in HAP Contracts (which states, in effect, that notwithstanding any other provision of the HAP Contract, adjustments provided for in that section of the HAP Contract must not result in material differences between the rents charged

for assisted and comparable unassisted units except to the extent that differences existed with respect to the contract rents set at contract execution or cost certification, as applicable) permits HUD to use comparability studies to decrease contract rents to eliminate material differences between rents charged for assisted and comparable unassisted units that are greater than the initial difference. In addition, the Court of Appeals affirmed the decision of the Court of Claims that HAP Contracts permit HUD to reduce rents below a previous year's rent levels through the use of comparability studies, and that the "initial difference" referred to in the HAP Contract is determined by the initial dollar amount and not by a percentage of the initial rents. Based on guidance in HUD's Section 8 Renewal Policy Guidebook, issued in 2000, as amended, HAP Contracts that are renewed under MAHRA may have their contract rents reduced to "market rents." This Guidebook also provides the opportunity for debt restructuring by HUD's Office of Affordable Housing Preservation in conjunction with the reduction in contract rents if a property is eligible.

At this time, the Agency is unable to predict what additional actions, if any, HUD or Congress will take in the future with respect to rent adjustments. Future policy changes for rent adjustments may be impacted by federal budget constraints. Beginning in federal fiscal year 2012, HUD implemented three primary cost cutting measures that affect all New Regulation (i.e., post-1979) HAP Contracts. These cost cutting measures, which have been continued for federal fiscal year 2015, include using residual receipts in lieu of rent increases, using residual receipts in lieu of subsidy payments, using the lesser of budget-based or Operating Cost Adjustment Factor ("OCAF") rent adjustments, offering automatic OCAF rent adjustments that are limited to market rents including option 4 multi-year annual renewals, and short funding HAP Contracts. Old Regulation HAP Contracts that have not initially renewed under MAHRA have not been affected by the cost cutting measure of using residual receipts in lieu of subsidy payments. As noted above under "Adjustments in Contract Rents," Congress has passed legislation and HUD has implemented procedures to restrict Annual Adjustment Factor rent increases above fair market rents for the 1997 and subsequent federal fiscal years for contracts that are in their original 20-, 30- or 40-year term. Upon initial renewal of the HAP Contract, the Development generally is not eligible for Annual Adjustment Factor rent adjustments under MAHRA, but is eligible for budget based, Operating Cost Adjustment Factor, mark-up-to-market, and mark-to-market (mark down to market) rent adjustments. HUD's Section 8 Renewal Policy Guide Book, as amended, and its Handbook 4350.1, Chapter 7 do not allow for the use of initial differences, Financing Adjustments, or Financing Adjustment Factors when determining these rent adjustments; they are excluded from rent adjustment calculations. Also, HUD has proposed additional changes to the Section 8 HAP Contracts that include provisions around combining HAP Contracts and risk-based monitoring. Currently, guidance for combining HAP Contracts has been issued through a HUD memorandum. The Agency has not seen this tool leveraged by owners; however, the potential does exist. This measure would reduce the number of on-site inspections and the number of financial statements that owners must submit, as well as allow properties to share income and operating expenses. The 2014 cost cutting measures remain in effect. Actions by HUD that limit options for contract renewals and restrict the definition of market rents in many cases result in a decrease in contract rents, which could negatively impact the ability of owners to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds from the amounts pledged under the Bond Resolution.

Project-Based Vouchers

Recently, the Agency has been working with local housing and redevelopment authorities and public housing authorities to provide for project-based Section 8 Housing Choice Vouchers for a portion of the units in a Development financed under the LMIR Program. Under this program, approximately 20 percent of the units in a Development receive year-to-year project-based Housing Choice Vouchers with the rents set at the Section 8 Existing Housing Fair Market Rent ("FMR") or payment standard. The Agency has found that the HUD-published FMR or payment standard is typically less than the market rent that could be charged without the subsidy; therefore, staff considers there to be minimal risk in the event of nonrenewal of the year-to-year ACC.

Section 8 Contract Administration

In 2000, the Agency was awarded an Annual Contributions Contract ("ACC") with HUD as a Performance-Based Contract Administrator ("PBCA") for the contract administration of a portion of HUD's project-based Section 8 portfolio. Under the ACC, HUD partners with qualified entities for the administration of Section 8 HAP Contracts made directly between HUD and owners of the affected developments. In 2011, HUD held a national competitive rebid to qualified entities for the work performed under the ACC. The Agency was one of 11

states that had only one bid and were awarded a contract uncontested. As a result, the Agency was awarded a new two-year PBCA contract for the State of Minnesota, which was originally set to expire on September 30, 2013. The Agency has been granted extensions of its ACC since September 30, 2013. The most recent extension is in effect through January 31, 2021. The 2011 national rebid process resulted in a number of bid protests. As a result of those protests and the resultant litigation, the U.S. Court of Appeals for the Federal Circuit ruled that the PBCA ACCs should be awarded through the federal procurement process rather than the Notice of Funding Availability and cooperative agreements that HUD used in making its 2011 contract awards. The Supreme Court declined to review the ruling.

HUD issued two draft Request for Funding Proposals (“RFPs”) that encapsulated the work conducted under the PBCA program in late 2017. The draft RFPs contemplated significant program changes, including dividing the work between a national contract and multiple regional contractors. In March of 2018, HUD cancelled the RFPs in light of the extensive comments that were submitted regarding the drafts. The cancellation notices indicate that HUD plans to undertake additional due diligence and expects to issue new RFPs at some point in the future. It is unclear when HUD may issue any more RFPs related to the work conducted under the PBCA program. Depending on the form and content of any RFPs, there may be bid protests and litigation with respect to the RFPs and any new awards of the PBCA contracts that result from the RFPs. The Agency intends to seek to retain the PBCA work in the State of Minnesota. There is, however, significant uncertainty in this area as it is unknown when HUD will release any subsequent RFPs, what the terms of those RFPs will be, and what impact any bid protests or litigation may have on the process. HUD reserved the right to terminate the ACC with 120 days’ notice if HUD completes or anticipates completing the RFP solicitation process before the end of the extension term. Under the terms of the most recent extension, HUD may also opt to extend the ACC two additional six-month terms, until January 31, 2022.

Apartment Renovation Mortgage Program

The purpose of this Program is to maintain and improve the rental housing in Minnesota that is affordable to low and moderate income households. Developments were financed under this Program from 1987 to 1991 using taxable bond financing, all of which has since been redeemed. The Agency is not presently making any Mortgage Loans pursuant to this Program.

Market Rate Mortgage Loan Program

In its Market Rate Mortgage Loan Program, which is administered by the Multifamily Division of the Agency, the Agency issues Bonds under the Bond Resolution to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds are lent by the Agency to nonprofit or limited profit sponsors that agree to construct the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. The Agency is not presently making any new Mortgage Loans pursuant to this Program.

Monitoring of Developments

In an attempt to minimize the risk inherent in long-term Mortgage Loans, the Agency has established the following guidelines for the monitoring of Developments:

- The Agency’s Accounting Division is responsible for monthly billing of principal and interest and escrows, and for paying insurance, property taxes and other expenses in a timely manner.
- The Agency’s Multifamily Asset Management Section is responsible for the supervision of all Developments, beginning with the feasibility processing. Prior to loan closing the Asset Management Section works with the sponsors and their marketing and management agents to review marketing and management plans. The management plan of a Development includes information on the management agent’s proposed method of operating the Development. That information relates to the organizational structure and on-site duties and staffing of the management agent, initial and on-going marketing plans, contents of an orientation handbook for residents and requirements for reporting operating expenses, budget and energy conservation information. Upon completion of construction or rehabilitation, the Asset Management Section

begins to monitor the implementation of the management plan, rent up and ongoing occupancy and reviews periodic submissions of income and expense data.

The Asset Management Section generally monitors the operations of Developments on an ongoing basis in generally the following ways:

- *On-Site Inspections.* After initial marketing has been completed, on-site inspections are periodically made to check on management performance. Reports summarizing findings of inspections are submitted to the owner and management agent along with a timetable for correcting deficiencies, if necessary.
- *Reporting Requirements.* Management agents for each Development are required to submit regular accounting and occupancy reports to the Agency's Asset Management Section. Smaller, non-subsidized Developments have proven to be erratic in meeting the Agency's reporting requirements. The reports are reviewed by the Housing Management Officer assigned to each Development in order to identify significant deviations from the operating budget or change in occupancy.

The Agency generally receives the following financial information related to each Development:

- (i) Monthly Operating Report—due the 15th day of the following month;
- (ii) Analysis of Accounts Payable and Receivable—due the 15th day of the month following the end of each quarter;
- (iii) Analysis of Reserve Accounts—prepared monthly by Asset Management staff;
- (iv) Annual Budget—due 60 days prior to the beginning of the fiscal year to which the budget relates; and
- (v) Annual Audited Financial Statements—due not more than 90 days (60 days for HUD Risk Share) following the end of each fiscal year.

For seasoned, well-maintained, financially sound Developments, the Agency may only require annual operating reports in the future.

- *Training Sessions.* The Agency provides technical assistance when needed for new management agents and the on-site resident manager to acquaint them with Agency and HUD procedures and requirements. Technical assistance is provided, as needed, throughout the life of the Mortgage Loan.

Applicable Federal Law Requirements

Applicable federal tax law imposes significant limitations on the financing of Mortgage Loans for Developments with the proceeds of qualified residential rental property bonds, such as the Series Bonds. (See "Tax Exemption and Related Considerations.")

OTHER PROGRAMS

In addition to the Program funded from the proceeds of the Bonds, the Agency finances other housing programs that provide loans for the purchase or improvement of single family housing and the acquisition, construction or rehabilitation of multifamily rental housing in the State of Minnesota. The assets devoted to these programs are briefly described in the notes to the Financial Statements in Appendix B.

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The applicable federal tax law establishes certain requirements that must be met subsequent to the issuance and delivery of the Series Bonds in order that interest on the Series Bonds be and remain excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). These requirements are generally described below. Noncompliance with these requirements may cause interest on the Series Bonds to become includable in gross income for purposes of federal and State of Minnesota income taxation retroactive to their date of original issue, irrespective in some cases of the date on which that noncompliance is ascertained or occurs.

The Bond and Series Resolutions, and loan documentation pertaining to the Development financed by the Series Bonds, contain provisions (the “Tax Covenants”), including covenants of the Agency and the owner, pursuant to which, in the opinion of Bond Counsel, the current requirements of the Code can be satisfied.

Opinion of Bond Counsel

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered, with respect to the Series Bonds, on the date of issuance of the Series Bonds, assuming the accuracy of certain representations and continuing compliance by the Agency with the Tax Covenants, under existing laws, regulations, rulings and judicial decisions, interest payable on the Series Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, provided interest on any Series Bond, is not excluded from gross income for federal income tax purposes of any holder of the Series Bonds who is a “substantial user” of a development financed by the Series Bonds or a “related person” thereto, as such terms are defined in Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is further of the opinion that interest on the Series Bonds is not a specific preference item for purposes of the federal alternative minimum tax under the Code.

In addition, in the opinion of Bond Counsel, interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. Interest on the Series Bonds is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. Interest on the Series Bonds is not includable in the Minnesota alternative minimum taxable income of individuals, estates and trusts.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series Bonds, and renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series Bonds, or under state and local tax law.

A form of the Bond Counsel opinion with respect to the Series Bonds is attached hereto as Appendix F.

Prospective owners of the Series Bonds should be aware that the ownership of obligations such as the Series Bonds may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S Corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. The extent of these collateral tax consequences will depend upon the owner’s particular tax status and other items of income or deduction, and Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series Bonds should consult their tax advisors as to the tax consequences of purchasing or owning the Series Bonds. Interest on the Series Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

The foregoing is a brief discussion of certain collateral Federal income tax matters with respect to the Series Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner

of a Series Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series Bonds in order that interest on the Series Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal Government. Noncompliance with those requirements may cause interest on the Series Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which that noncompliance occurs or is discovered. The Agency will covenant that it will do and perform all acts necessary or desirable to assure the exclusion of interest on the Series Bonds from gross income under Section 103 of the Code. The Agency will deliver a certificate with respect to ongoing Federal tax requirements with the issuance of the Series Bonds that will contain provisions relating to compliance with the requirements of the Code. The Agency also has required or will require owners to make certain covenants in the Mortgage Loan documents relating to compliance with the requirements of the Code. No assurance can be given, however, that in the event of a breach of any covenant, the remedies available to the Agency or the owners of the Series Bonds can be enforced judicially in a manner to assure compliance with the Code and therefore to prevent the loss of the exclusion from gross income of the interest on the Series Bonds for Federal income tax purposes.

Low Income Set-Aside Requirements under the Code

Each series of bonds issued under the Bond Resolution with the intention that the interest paid thereon will be excludable from gross income for Federal income tax purposes ("Tax-Exempt Bonds"), including the Series Bonds, must satisfy the applicable requirements of the Code. In general, Tax-Exempt Bonds originally issued for new money purposes after the general effective date of the Code of August 16, 1986, are fully subject to the applicable requirements of the Code, including the more restrictive low income set-aside requirements under the Code. The Series Bonds are fully subject to the low income set-aside requirements of the Code. This section includes brief summaries of certain low income set-aside requirements and other requirements for qualified residential rental projects under the Code.

The Code requires that at least 95 percent of the net proceeds of exempt facility bonds under Section 142(a)(7) (after reduction for amounts applied to fund a reasonably required reserve fund) be used to provide "qualified residential rental projects." The Code defines a residential rental project as a project containing units with separate and complete facilities for living, sleeping, eating, cooking, and sanitation that are available to the general public and are to be used on other than a transient basis. Section 142(d) of the Code requires that either (i) at least 20 percent of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously occupied during the "qualified project period" by individuals and families whose annual adjusted income does not exceed 50 percent of the area median income (with adjustments for family size), or (ii) at least 40 percent of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously occupied during the qualified project period by individuals and families whose annual adjusted income does not exceed 60 percent of the area median income (with adjustments for family size). The Agency will make elections on the applicable low income set-aside requirements with respect to the Development expected to be financed with the proceeds of the Series Bonds prior to the issuance date of the Series Bonds. In addition, all of the units in the Development must be rented or available for rental on a continuous basis throughout the applicable qualified project period. The Code defines the "qualified project period" as the period beginning on the first day upon which 10 percent of the units in a project are occupied and ending on the latest of (i) the date that is 15 years after the date upon which 50 percent of the residential units in the project are occupied, (ii) the first day on which no tax-exempt private activity bond issued with respect to the project is outstanding, or (iii) the date upon which any assistance provided with respect to the project under Section 8 of the United States Housing Act of 1937, as amended, terminates. A Development generally will meet the continuing low income set aside requirement so long as a tenant's income does not increase to more than 140 percent of the applicable income limitation. Generally, upon an increase of a tenant's income over 140 percent of the applicable income limitation, the next available unit of comparable or smaller size in the applicable Development must be rented to a tenant whose income does not exceed the applicable income limitation; provided however, that if tax credits under Section 42 of the Code are allowed with respect to the applicable

Development, the next available unit of a comparable or smaller size in the same building as the tenant whose income has increased over 140 percent of the applicable income limitation must be rented to a tenant whose income does not exceed the applicable income limitation. The Code requires annual certifications to be made to the Secretary of the Treasury regarding compliance with the applicable income limitations.

Certain State Tax Legislation

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes if a court determines that Minnesota's exemption of that interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. This provision applies to taxable years that begin during or after the calendar year in which any court decision becomes final, irrespective of the date upon which the obligations were issued.

On May 19, 2008 the U.S. Supreme Court held in *Department of Revenue of Kentucky v. Davis* that Kentucky's taxation of interest on bonds issued by other states and their political subdivisions, while exempting from taxation interest on bonds issued by the Commonwealth of Kentucky or its political subdivision, does not impermissibly discriminate against interstate commerce under the Commerce Clause of the U.S. Constitution. In a footnote, however, the Court stated that it had not addressed whether differential treatment of "so-called 'private-activity,' 'industrial-revenue,' or 'conduit' bonds . . . used to finance projects by private entities" violate the Commerce Clause, adding that "we cannot tell with certainty what the consequences would be of holding that Kentucky violates the Commerce Clause by exempting such bonds; we must assume that it could disrupt important projects that the States have deemed to have public purposes. Accordingly, it is best to set this argument aside and leave for another day any claim that differential treatment of interest on private-activity bonds should be evaluated differently from the treatment of municipal bond interest generally."

Since the Series Bonds are "private activity bonds" and the Supreme Court's opinion left open the possibility of a challenge to Minnesota's differential treatment of the interest on private activity bonds issued in other states, the Agency cannot predict the outcome of any challenge. If Minnesota's treatment of the bonds were held to unlawfully discriminate against interstate commerce, the court making such a finding would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those years preceding the decision were to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Series Bonds to become taxable by Minnesota and the market value of the Series Bonds to decline.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above, prevent owners of the Series Bonds from realizing the full current benefit of the tax treatment of the Series Bonds or adversely affect the market value of the Series Bonds. It cannot be predicted whether or in what form any proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced that, if implemented or concluded in a particular manner, could adversely affect the market value of the Series Bonds. It cannot be predicted whether any regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series Bonds or the market value thereof would be impacted thereby. Purchasers of the Series Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

LITIGATION

There is not now pending or, to the best knowledge of the officers of the Agency, overtly threatened any litigation against the Agency seeking to restrain or enjoin the sale, issuance, execution or delivery of the Series

Bonds or in any manner questioning or affecting the validity of the Series Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of those actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on the financial position or results of operations of the Agency.

LEGAL MATTERS

The validity of the Series Bonds and the tax exemption of interest thereon are subject to the legal opinion of Kutak Rock LLP, Bond Counsel. A copy of the opinion of said firm, substantially in the form set forth in Appendix F hereto, will be available at the time of delivery of the Series Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Dorsey & Whitney LLP.

FINANCIAL ADVISOR

CSG Advisors Incorporated (the “Financial Advisor”) is serving as financial advisor to the Agency with respect to the planning, structuring and sale of the Series Bonds. The Financial Advisor does not underwrite or trade bonds and will not engage in any underwriting activities with regard to the issuance and sale of the Series Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness, of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing disclosure undertakings.

RATINGS

The Series Bonds are rated “__” by Moody’s Investors Service, Inc., and “__” by S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC. The ratings reflect only the views of the applicable rating agency, and an explanation of the significance of that rating may be obtained only from the rating agency and its published materials. The ratings described above are not a recommendation to buy, sell or hold the Series Bonds. The Agency cannot give any assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Therefore, after the date of this Official Statement, investors should not assume that the ratings are still in effect. A downward revision or withdrawal of either rating is likely to have an adverse effect on the market price and marketability of the Series Bonds. The Agency has not assumed any responsibility either to notify the owners of the Series Bonds of any proposed change in or withdrawal of any rating subsequent to the date of this Official Statement, except in connection with the reporting of events as provided in the Continuing Disclosure Undertaking (see Appendix C to this Official Statement), or to contest any revision or withdrawal.

UNDERWRITING

RBC Capital Markets, LLC (the “Underwriter”) will purchase the Series Bonds. The Underwriter is to be paid a fee of \$_____ with respect to its purchase of the Series Bonds. The Underwriter may offer and sell the Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

The Underwriter is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter may have, from time to time, performed and may in the future perform, various investment banking services for the Agency, for which it may have received or will receive customary fees and expenses. In the ordinary course of its various business activities, the Underwriter may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for its own account and for the accounts of its customers and may at any time hold long and short positions in those

securities and instruments. Those investment and securities activities may involve securities and instruments of the Agency.

MISCELLANEOUS

This Official Statement is submitted in connection with the offering of the Series Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. Any statement made in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or holders of any of the Series Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Agency.

MINNESOTA HOUSING FINANCE AGENCY

_____, 2020.

By _____
Commissioner

APPENDIX A

**DESCRIPTION OF OUTSTANDING MORTGAGE LOANS AND DEVELOPMENTS
PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS, AND MORTGAGE LOANS AND
DEVELOPMENTS PLEDGED AS ADDITIONAL SECURITY
UNDER THE RENTAL HOUSING BOND RESOLUTION,
INCLUDING THOSE INTENDED TO BE FINANCED
WITH PROCEEDS OF THE SERIES BONDS**

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING

The following statements are extracted provisions of the Continuing Disclosure Undertaking to be executed by the Agency in connection with the issuance of the Series Bonds.

Purpose

This Disclosure Undertaking is executed and delivered by the Agency for the benefit of the holders and owners (the “Bondholders”) and the Beneficial Owners of the Series Bonds and in order to assist the Participating Underwriter in complying with the requirements of the Rule. There is no obligated person other than the Agency that is a party to the Disclosure Undertaking.

Definitions

In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Undertaking, the following capitalized terms shall have the following meanings:

“*Annual Financial Information*” means the following financial information and operating data (in addition to Audited Financial Statements): information about the Mortgage Loans and Developments of a type substantially similar to that in Appendix A in the Official Statement.

“*Annual Financial Information Disclosure*” means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as described under the caption “Annual Financial Information Disclosure” herein.

“*Audited Financial Statements*” means the audited financial statements of the Agency, prepared pursuant to the standards and as described under the caption “Annual Financial Information Disclosure.”

“*Beneficial Owners*” means (1) in respect of a Series Bond subject to a book-entry-only registration system, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Series Bond (including persons or entities holding Series Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Series Bond for federal income tax purposes, and such person or entity provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee; or (2) in respect of a Series Bond not subject to a book-entry-only registration system, the registered owner or owners thereof appearing in the bond register maintained by the Trustee, as Registrar.

“*Commission*” means the Securities and Exchange Commission.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Financial Obligation*” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or, (iii) guarantee of either (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB pursuant to the Rule.

“*Listed Event*” means the occurrence of any of the events with respect to the Series Bonds set forth below:

1. Principal and interest payment delinquencies;
2. Nonpayment-related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Agency (within the meaning of the Rule);
13. The consummation of a merger, consolidation or acquisition involving the Agency or the sale of all or substantially all of the assets of the Agency, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the Agency, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Agency, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Agency, any of which reflect financial difficulties.

“*Listed Events Disclosure*” means dissemination of a notice of a Listed Event as described under the heading “Listed Events Disclosure” in this Appendix C.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*Participating Underwriter*” means each broker, dealer or municipal securities dealer acting as an underwriter in any primary offering of the Series Bonds.

“*Prescribed Form*” means, with regard to the filing of Annual Financial Information, Audited Financial Statements and notices of Listed Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

“Rule” means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

“Undertaking” means the obligations of the Agency described under the headings “Annual Financial Information Disclosure” and “Listed Events Disclosure” in this Appendix C.

Annual Financial Information Disclosure

The Agency shall disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below) for each fiscal year of the Agency, commencing with the fiscal year ending June 30, 2021, by one of the following methods: (i) the Agency may deliver such Annual Financial Information and the Audited Financial Statements to the MSRB within 120 days of the completion of the Agency’s fiscal year or (ii) delivery of an Official Statement of the Agency to the MSRB within 120 days of the completion of the Agency’s fiscal year, but only to the extent such Official Statement includes such Annual Financial Information and Audited Financial Statements.

The Agency is required to deliver such information in Prescribed Form and by such time so that such entities receive the information by the dates specified.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Agency will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Disclosure Undertaking, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

All or a portion of the Annual Financial Information and the Audited Financial Statements may be included by reference to other documents which have been submitted to the MSRB or filed with the Commission. The Agency shall clearly identify each such item of information included by reference.

Annual Financial Information will be provided to the MSRB within 120 days after the last day of the Agency’s fiscal year. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, and Audited Financial Statements will be provided to the MSRB within 10 business days after availability to the Agency.

Audited Financial Statements will be prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time.

If any change is made to the Annual Financial Information as permitted by the Disclosure Undertaking, including for this purpose a change made to the fiscal year-end of the Agency, the Agency will disseminate a notice to the MSRB of such change in Prescribed Form.

Listed Events Disclosure

The Agency hereby covenants that it will disseminate in a timely manner, not in excess of 10 business days after the occurrence of the event, Listed Events Disclosure to the MSRB in Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series Bonds or defeasance of any Series Bonds need not be given under this Disclosure Undertaking any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Series Bonds pursuant to the Resolution.

Consequences of Failure of the Agency To Provide Information

The Agency shall give notice in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB in Prescribed Form of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Agency to comply with any provision of this Disclosure Undertaking, the Bondholder or Beneficial Owner of any Series Bond may seek specific performance by court order to cause the Agency to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution or any other agreement, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Agency to comply with this Disclosure Undertaking shall be an action to compel performance.

Amendment; Waiver

Notwithstanding any other provision of this Disclosure Undertaking, the Agency may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if:

- (i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Agency or type of business conducted;
- (ii) This Disclosure Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (iii) The amendment or waiver does not materially impair the interests of the Bondholders of the Series Bonds, as determined either by parties unaffiliated with the Agency (such as the Trustee) or by an approving vote of the Bondholders of the Series Bonds holding a majority of the aggregate principal amount of the Series Bonds (excluding Series Bonds held by or on behalf of the Agency or its affiliates) pursuant to the terms of the Resolution at the time of the amendment; or
- (iv) The amendment or waiver is otherwise permitted by the Rule.

Termination of Undertaking

The Undertaking of the Agency shall be terminated when the Agency shall no longer have any legal liability for any obligation on or relating to the repayment of the Series Bonds. The Agency shall give notice to the MSRB in a timely manner and in Prescribed Form if this Section is applicable.

Additional Information

Nothing in this Disclosure Undertaking shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Agency chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Undertaking, the Agency shall not have any obligation under this Disclosure Undertaking to update such information or include it in any future disclosure or notice of the occurrence of a Listed Event.

Beneficiaries

This Disclosure Undertaking has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Disclosure Undertaking shall inure solely to the benefit of the Agency, the Bondholders and Beneficial Owners of the Series Bonds, and shall create no rights in any other person or entity.

Recordkeeping

The Agency shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The Bond Resolution contains various covenants and security provisions, certain of which are summarized below. The summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Bond Resolution, to which reference is hereby made, copies of which are available from the Agency or the Trustee.

Resolution Constitutes Contract with Trustee and Bondholders

Upon acceptance by the Trustee of the trusts created in the Bond Resolution and upon the purchase of Bonds by a Holder thereof, the Bond Resolution and applicable Series Resolution shall constitute a contract of the Agency with the Trustee and the Bondholders. The pledge made and security interests granted in the Bond Resolution are for the equal benefit, protection and security of all such Bondholders; all Bonds shall be of equal rank without preference, priority or distinction except as expressly provided or permitted in the Bond Resolution. The Agency covenants that it will cause to be deposited with the Trustee all proceeds of Bonds, all Mortgages, Mortgage Loans, and other securities purchased from Bond Proceeds and all income thereon. The pledge of the Agency is valid and binding from the time when made and all Mortgages, Mortgage Loans, securities and income thereon pledged and received by the Agency shall be subject to the lien thereof. The Agency pledges its full faith and credit for payment of principal, interest, and premium, if any, on the Bonds; the Bonds are a general obligation of the Agency. The State has pledged to and agreed with the Bondholders that it will not limit or alter the rights vested in the Agency nor impair the rights or remedies of the Bondholders until the Bonds, together with interest due, are fully paid.

Definitions

The following are definitions of certain terms used in the Bond Resolution and in this Official Statement (but not otherwise defined herein).

Accreted Value: for any Capital Accumulator Bond or Bonds, as of any date, the value (which may be rounded to the nearest dollar) resulting from the compounding of interest on the original principal amount and accretion thereof to principal on each prior Interest Payment Date at the approximate yield expressed in the Bond and provided in the applicable Series Resolution.

Agency Hedge Payment: a payment due to a Hedge Counterparty from the Agency pursuant to the applicable Hedge Agreement (excluding, however, payments in respect of any early termination of such Hedge Agreement).

Bond Requirement: as of any particular date of calculation, the sum of (i) that amount of the interest to become due on each Series of Outstanding Bonds at its next Interest Payment Date the deposit of which, once each month between that and the last such Interest Payment Date (or if none, since the Issue Date), would produce a sum sufficient to pay such interest, (ii) that amount of the Principal Installment due on each Series of Outstanding Bonds at its next Principal Installment Date, the deposit of which, once each month between that and the last such Principal Installment Date (or if none, once each month for a period of twelve months prior to the next Principal Installment Date), would produce a sum sufficient to pay such Principal Installment; (iii) any amount referred to in clause (i) and (ii) which has not been deposited in the Bond Fund in any month preceding the date of calculation; (iv) any Principal Installment and interest due and unpaid before the date of calculation; and (v) interest accrued on any such Principal Installment and (to the extent lawful) on any such interest, at the same rate as that borne by the Principal Installment before its maturity; provided that if, as of the date of calculation, the interest rate on any Variable Rate Bonds cannot be determined for any period before the next Interest Payment Date therefor, the interest rate for such period shall be assumed to be the Maximum Rate for such Variable Rate Bonds.

Capital Accumulator Bond: any Bond the interest on which is not currently payable on Interest Payment Dates during each year of its term (or portion of its term) but accrues and is accreted to principal on each Interest Payment Date and is payable as part of the Accreted Value of the Bond at maturity, or at a prior date on which the Bond is duly called for redemption, as provided in the applicable Series Resolution.

Current Interest Bond: any Bond the interest on which is payable on Interest Payment Dates during each year of its term (or portion of its term), or to a prior date on which the Bond is duly called for redemption, as provided in the applicable Series Resolution.

Debt Service Reserve Requirement: as of any particular date of computation, an amount of money (or cash equivalent available under a letter of credit, insurance policy, surety bond or similar security instrument issued by an institution whose debt obligations at the time of such issuance are rated as high as or higher than the Bonds by a nationally recognized bond rating agency) equal to the sum of amounts computed for each Series of Outstanding Bonds, each in accordance with the applicable Series Resolution.

Development: a specific improvement or structure constituting residential housing as defined in the Act, containing units for possession pursuant to a leasehold estate or cooperative ownership, and financed in whole or in part by the issuance of Bonds or Notes.

Escrow Payment: any payment made in order to obtain or maintain mortgage insurance and fire and other hazard insurance, including payments for any Federal, state, local or private program intended to assist in providing Mortgages, and any payments required to be made with respect to Mortgages for taxes or other governmental charges or other similar charges to a Mortgagor customarily required to be escrowed, and payments or charges constituting construction or operating contingency, performance or completion or replacement reserves required pursuant to the applicable Mortgage Loan or any Subordinate Mortgage Loan.

Expense Requirement: such amount of money as may from time to time by Series Resolution or Supplemental Bond Resolution of the Agency be determined to be necessary for the payment of costs and expenses of the Agency pursuant to the Program (other than costs and expenses properly payable from a Cost of Issuance Account), and including any Agency Hedge Payments owing from time to time to a Hedge Counterparty pursuant to a Hedge Agreement and any fees or expenses owing from time to time to a person or entity providing credit or liquidity support or remarketing services in respect of any Bonds.

Hedge Agreement: a payment exchange agreement, swap agreement, forward agreement or any other hedge agreement between the Agency and a Hedge Counterparty, as amended or supplemented, providing for payments between the parties based on levels of, or changes in, interest rates or other indices, including, without limitation, interest rate exchange agreements, floors or caps, which allows the Agency to manage or hedge payment, rate, spread or similar risk with respect to any Bonds outstanding or proposed to be issued and which is entered into in accordance with the requirements described under the subheading "Hedge Agreements."

Hedge Counterparty: any person or entity with whom the Agency shall from time to time enter into a Hedge Agreement, as specified in a Series Resolution or other resolution of the Agency.

Hedge Counterparty Guarantee: a guarantee in favor of the Agency given in connection with the execution and delivery of a Hedge Agreement, as specified in a Series Resolution or other resolution of the Agency.

Interest Payment Date: each date on which interest on any Series of Bonds is required to be paid under the applicable Series Resolution.

Investment Obligation: any of the following, including puts and call options in future contracts traded on a contract market designated and regulated by a federal agency, which at the time are legal investments for Fiduciaries under the laws of the State for moneys held hereunder which are then proposed to be invested therein: (i) direct general obligations of the United States of America; (ii) obligations the payment of the principal of and interest on which, in the opinion of the Attorney General of the United States, is unconditionally guaranteed by the United States; (iii) bonds, debentures, participation certificates, notes or other debt issued by any of the following: Bank for Cooperatives, Federal Financing Bank, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal National Mortgage Association, Export Import Bank of the United States, Farmer's Home

Administration, Federal Home Loan Mortgage Corporation or Government National Mortgage Association, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof or sponsored thereby; (iv) direct and general obligations of any state within the United States or of any political subdivision of the State of Minnesota, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by each Rating Agency providing a Rating on Outstanding Bonds; (v) interest bearing deposit accounts in savings and loan associations or in state, national or foreign banks (including the Trustee and any Paying Agent), provided that either said deposits are insured by the Federal Deposit Insurance Corporation, are secured by obligations described in clauses (i) through (iii) above, or at the time the purchase is made the debt obligations of the depository are rated as high or higher than the Bonds by each Rating Agency providing a Rating on Outstanding Bonds; (vi) bankers' acceptances drawn on and accepted by commercial banks whose debt obligations at the time the purchase is made are rated as high or higher than the Bonds by each Rating Agency providing a Rating on Outstanding Bonds; (vii) commercial paper issued by United States corporations or their Canadian subsidiaries rated at the time the purchase is made in the highest rating category for commercial paper by each Rating Agency providing a Rating on Outstanding Bonds and maturing in 270 days or less; (viii) repurchase agreements and reverse repurchase agreements with banks which (1) are members of the Federal Deposit Insurance Corporation and (2) are rated in either of the two highest rating categories by each Rating Agency providing a Rating on Outstanding Bonds, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreements are secured by obligations described in the preceding clauses (i) through (iii) of this sentence; (ix) guaranteed investment contracts or similar deposit agreements with insurance companies with a claims paying rating from each Rating Agency providing a Rating on Outstanding Bonds at the time the contract or agreement is made at least equal to the respective Rating of the Bonds by the related Rating Agency, or with other financial institutions or corporations provided, at the time the contract or agreement is made, the debt obligations of any such financial institution or corporation are rated as high or higher than the Bonds by each Rating Agency providing a Rating on Outstanding Bonds or such contracts or agreements are secured by obligations described in clauses (i), (ii), (iii) and (viii) above; (x) shares in an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933, or shares of a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least \$50,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, and whose only investments are qualified investments described in clauses (i), (ii), (iii) and (viii) above; (xi) notes, bonds, debentures or other debt issued or guaranteed by domestic corporations, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by each Rating Agency providing a Rating on Outstanding Bonds; (xii) notes, bonds, debentures or other debt issued by the World Bank or the Inter-American Development Bank, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by each Rating Agency providing a Rating on Outstanding Bonds; and (xiii) any other investment that as of the date made does not impair the Rating of any Outstanding Bonds.

Maximum Rate: in respect of any Variable Rate Bonds, the maximum interest rate that such Bonds may bear as specified in the Series Resolution authorizing the issuance of the Variable Rate Bonds.

Mortgage: a mortgage deed, deed of trust, or other instrument, which, except as otherwise provided in the Bond Resolution, shall constitute a first lien in the State on improvements and real property in fee simple, or on a leasehold under a lease having a remaining term which, at the time the Mortgage is acquired, does not expire for at least that number of years beyond the maturity date of the Mortgage Loan or Subordinate Mortgage Loan secured by such Mortgage which is equal to the number of years remaining until the maturity date of the Mortgage Loan or Subordinate Mortgage Loan.

Mortgage Loan: a loan by the Agency to a Mortgagor for the financing and/or refinancing of a Development for the purposes set forth in Section 101 of the Bond Resolution, secured by a Mortgage on the Development.

Mortgagor: a natural person, a public or private corporation, a partnership, a joint venture or other organization or entity, to the extent permitted by the Act and the rules of the Agency thereunder (including the Agency or any corporation, agency or instrumentality created or controlled by the Agency).

Outstanding: a reference as of any particular time to all Bonds theretofore delivered except (i) any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Agency or by any

other Fiduciary, at or before that time, and (ii) any Bond for the payment or redemption of which either (a) money equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, or (b) Investment Obligations or money in the amounts, or the maturities and otherwise as described and required under the provisions of paragraph (B) or (D) of Section 1201 of the Bond Resolution, has been deposited with one or more Fiduciaries in trust (whether upon or prior to the maturity or redemption date of the Bond) and except in the case of a Bond to be paid at maturity, of which notice of redemption has been given or provided for in accordance with Article VII therein, and (iii) any Bond in lieu of or in substitution for which another Bond has been delivered pursuant to Section 605, 607 or 906 of the Bond Resolution.

Prepayment: any money received from a payment of principal on a Mortgage Loan or Subordinate Mortgage Loan in excess of the scheduled payments of principal then due, or from the sale of a Mortgage Loan or Subordinate Mortgage Loan pursuant to Section 313 of the Bond Resolution, other than money constituting a Recovery Payment.

Principal Installment: as of any particular date of calculation, an amount equal to the sum of (i) the principal amount of Outstanding Current Interest Bonds which mature on a single future date, reduced by the aggregate amount of any Sinking Fund Installments payable before that date toward the retirement of such Outstanding Current Interest Bonds, plus (ii) the amount of any Sinking Fund Installment payable on said future date toward the retirement of such Outstanding Current Interest Bonds, plus (iii) the Accreted Value, as of the same future date, of Capital Accumulator Bonds which mature or are required to be redeemed as a Sinking Fund Installment on such date.

Program: the Agency's program of making Mortgage Loans, including the payment when due of principal of and redemption premium, if any, and interest on Notes, for the purposes specified in Section 101 of the Bond Resolution.

Rating: with respect to any Bonds and as of any date, the rating issued by a Rating Agency then in force and prior to a proposed action to be taken by the Agency. An action does not "impair" the Rating with respect to any Bonds if the action will not cause the Rating Agency to lower or withdraw the rating it has assigned to such Bonds.

Recovery Payment: any money received or recovered by the Agency, in excess of the expenses necessarily incurred by the Agency in collection thereof, from (i) the sale or other disposition of a Development acquired by the Agency, or (ii) condemnation of a Development or part thereof, or (iii) other proceedings taken in the event of default by the Mortgagor, or (iv) the sale or other disposition of a Mortgage in default for the purpose of realizing on the Agency's interest therein, or (v) mortgage insurance or guaranty or hazard insurance.

Redemption Price: when used with respect to a Bond or portion thereof, the principal amount of a Current Interest Bond or the Accreted Value of a Capital Accumulator Bond or any portion thereof plus the applicable premium, if any, payable upon redemption thereof in accordance with its terms.

Revenues: all payments, proceeds, rents, charges and other income derived by or for the account of the Agency from or related to the Program, including without limitation the scheduled amortization payments of principal of and interest on Mortgages (whether paid by or on behalf of the Mortgagor or occupants of the Development subject to the Mortgage) and any Counterparty Hedge Payments payable by or received from or on behalf of any Hedge Counterparty pursuant to a Hedge Agreement or a Hedge Counterparty Guarantee, but not including Prepayments, Recovery Payments or Escrow Payments, and not including inspection, financing, application, commitment or similar fees or charges of the Agency which are included in the original principal amount of a Mortgage.

Sinking Fund Installment: any amount of money required by or pursuant to a Series Resolution as referred to in Section 202 of the Bond Resolution to be paid on a specified date by the Agency toward the retirement of any particular Term Bonds before their maturity.

Sinking Fund Installment Date: the date on which a Sinking Fund Installment is payable.

Subordinate Mortgage Loan: a Mortgage Loan, which may be junior and subordinate to other mortgage liens on a Development, made by the Agency pursuant to the authorization contained in Section 308 of the Bond Resolution.

Variable Rate Bonds: any Bonds the interest rate on which varies periodically such that the interest rate at a future date cannot be determined as of the date of calculation.

Authorization of Bonds

In order to provide sufficient funds for the Program, Bonds of the Agency designated as Rental Housing Bonds are authorized by the Bond Resolution to be issued from time to time without limitation as to amount except as provided in the Bond Resolution or as may be limited by law, and shall be issued subject to the terms, conditions and limitations established in the Bond Resolution. The full faith and credit of the Agency is pledged for the security of the Bonds, including interest and redemption premiums thereon, and the Bonds are general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject to the provisions of any other resolutions, indentures or state laws now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or Bonds.

Other Obligations

(A) Except as provided in Article II of the Bond Resolution, the Agency covenants that it will not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge or lien on the Revenues or will be payable from any of the Funds or Accounts established and created by or pursuant to the Bond Resolution, including the Debt Service Reserve Fund. The foregoing provision shall not be construed as prohibiting the Agency from entering into hedging transactions, such as interest rate swaps, in connection with the issuance of any Series of Bonds, or in connection with the payment of any Series of Outstanding Bonds.

(B) The Agency expressly reserves the right to adopt one or more additional bond or note resolutions and reserves the right to issue other obligations so long as they are not a charge or lien prohibited by paragraph (A) of this Section of the Bond Resolution.

Pledge of the Resolution

The Agency in the Bond Resolution covenants that it will cause to be paid to and deposited with the Trustee, or to its credit with Depositories designated by the Agency, and pledges and grants to the Trustee a security interest in, all proceeds of Bonds, all Mortgages and Mortgage Loans and other securities made and purchased from such proceeds (or from the proceeds of Notes paid from the proceeds of Bonds), and all income and receipt therefrom. This pledge is intended to be valid and binding from the time when made, and the Bond proceeds, Mortgages, Mortgage Loans, other securities, income and receipts pledge and hereafter received by the Agency are immediately to be subject to the lien thereof without any physical delivery or further act, and the lien of such pledge is intended to be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Agency, whether or not such parties have notice thereof.

Custody and Application of Bond Proceeds

Each Series Resolution authorizing the issuance of a Series of Bonds is required to specify the purposes for which the proceeds of such Series of Bonds may be used and to provide for the disposition of the proceeds thereof. Purposes for which Bonds may be issued are (a) the making of Mortgage Loans, (b) the financing of Mortgage Loans previously made from the proceeds of Notes, (c) the refunding of Outstanding Bonds, and (d) incident to these purposes, the deposit of amounts determined by or pursuant to the Bond Resolution to be credited and paid into the Funds and Accounts referred to in the Bond Resolution.

Note Accounts. Money in any Note Account shall be held by the Trustee and applied as directed by the applicable Series Resolution to the payment of Notes upon receipt of an Officer's Certificate identifying them by title, date of issuance and maturity or redemption, interest rate and the person to whom payment is to be made and the amount thereof. All interest and other income received from the deposit and investment of money in the Note

Account pending application to the payment of Notes, unless otherwise directed by the applicable Series Resolution, shall be transferred as received to the Revenue Fund. Upon receipt of evidence satisfactory to the Trustee that such Notes have been paid and canceled, the Trustee shall transfer any balance remaining in the Note Account to the appropriate Project Account.

Project Account and Mortgage Loan Accounts. Money in each Project Account and Mortgage Loan Account shall be held by the Trustee or a Depository as directed by an Officer's Certificate. The Trustee shall create specific Mortgage Loan Accounts within the Project Account to finance specific Developments and the Trustee shall from time to time pay out or permit the designated Depository to pay out money in any Mortgage Loan Account held for the purpose of making a Mortgage Loan, upon receipt by the Trustee (or by the Depository with a copy to the Trustee) of an Officer's Certificate as to each payment or withdrawal, stating:

- (i) the name of the Mortgagor to, and Development for, which the payment is to be made;
- (ii) the amount to be paid; and
- (iii) that this amount, together with all prior withdrawals from said Mortgage Loan Account and all prior advances made by the Agency to the Mortgagor on account of the Mortgage Loan, will not exceed in the aggregate the authorized amount of the Mortgage Loan.

All interest and other income from time to time received from the deposit and investment of money in the Project Account or any Mortgage Loan Accounts shall be transferred as received to the Trustee for deposit in the Revenue Fund.

Promptly upon the fulfilling of its commitment to make a Mortgage Loan to a Mortgagor, or upon revocation of the commitment before any substantial disbursement of funds thereunder, the Agency will deliver to the Depository and the Trustee an Officer's Certificate stating such fact and the amount of money, if any, remaining in the applicable Mortgage Loan Account, and directing this amount to be transferred by the Depository to the Trustee and deposited by the Trustee in a designated Project Account or in one or more designated Mortgage Loan Accounts or the Redemption Fund.

Mortgage Provisions and Conditions

Each Mortgage Loan financed from the proceeds of Bonds or of Notes paid from the proceeds of Bonds or from amounts made available from the Redemption Fund, and the Mortgage securing it, shall conform to the following terms, conditions, provisions and limitations as well as those stated in "Program Covenants" herein, except to the extent, if any, that a variance therefrom is required by an agency or instrumentality of the United States guaranteeing, insuring, or otherwise assisting in the payment of the Mortgage Loans. In addition, the Agency may, solely from Excess Revenues under the Bond Resolution which could otherwise be withdrawn therefrom pursuant to Section 404(5) thereof, make Subordinate Mortgage Loans with respect to a Development upon such terms and conditions as the Agency may deem appropriate, and without regard to the following provisions.

Lien. With respect to each Mortgage Loan, the Mortgage and complementary financing statements and other necessary documents shall be executed, recorded and filed in accordance with the requirements of existing laws, so as to create and constitute a valid first mortgage lien on the real property or leasehold interest in real property of the Mortgagor which is the site of the Development and improvements thereon for which the Mortgage Loan is made, and a valid security interest in all personal property acquired with proceeds of the Mortgage Loan and attached to or used in the operation of the Development.

Title. Before the disbursement of Bond proceeds to make the Mortgage Loan or to pay Notes the proceeds of which were used to make it, the Mortgagor shall have acquired marketable title in fee simple to the site of the Development, or a leasehold interest therein sufficient as the subject of a Mortgage as defined in Section 103 of the Bond Resolution, subject only to liens and encumbrances which in the reasonable judgment of the Agency do not materially affect its value or usefulness for the intended use; and there shall be deposited with the Trustee, or with an agent (which may be the Agency) authorized by the Trustee to receive on its behalf and transmit to the Trustee, (i) the Mortgage; (ii) the note evidencing the Mortgage Loan; (iii) an acceptable title opinion or title insurance policy;

and (iv) originals or photocopies of all other agreements and certificates of the Mortgagor relating to the Development.

Participation. The Agency may participate with another party or parties in the making of a Mortgage Loan for various purposes as set forth in the Resolution, if its mortgage lien and security interests, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Agency may make an additional Mortgage Loan in certain circumstances on a parity of lien with the Mortgage then held by the Agency or subordinate thereto (but not junior or subordinate to a mortgage held by any other party unless permitted by the Resolution).

Prepayments. With respect to each Mortgage Loan, the Mortgage shall not permit a Prepayment of the Mortgage Loan without the consent of an Authorized Officer of the Agency, unless required by an agency of the United States as contemplated in this section; but the Agency may undertake in the Mortgage to give its consent if the following conditions with respect to Prepayment exist:

- (a) the amount to be paid prior to satisfaction of the Mortgage equals, as of the date of the Prepayment:
 - (i) the unpaid principal balance of the Mortgage Loan; plus
 - (ii) accrued interest to the date of the Prepayment; plus
 - (iii) unless waived or modified by the Agency, a prepayment penalty calculated in accordance with the terms of the Mortgage; and
- (b) an Authorized Officer determines that after such Prepayment (whether total or partial), the Agency will remain in compliance with its Revenue Covenant.

The Agency may consent to the Prepayment of any Subordinate Mortgage Loan upon such terms as it, in its sole discretion, deems appropriate.

Insurance and Escrow. With respect to each Mortgage Loan, the Mortgage or an accompanying document shall require the Mortgagor:

- (a) to procure and maintain fire and extended coverage insurance on the Development in amount as determined by the Agency, payable to the Agency as its interest may appear;
- (b) to pay all taxes, special assessments and other lawful governmental charges with respect to the Development before they become delinquent, and all claims for work done and materials furnished with respect thereto before they are filed as liens on the Development, except during any period for which payment of part or all thereof may be deferred, with the written consent of and upon such terms as are specified by an Authorized Officer, for the purpose of contesting the same; and
- (c) to make monthly Escrow Payments to the Agency or a Servicer or a Depository sufficient to accumulate funds for taxes and other governmental charges and insurance premiums.

Disbursements. Before the disbursements of a Mortgage Loan from Bond proceeds the Mortgagor shall have completed the Development and paid all costs thereof in a manner approved by an Authorized Officer, or shall have:

- (a) obtained all governmental approvals required by law for the acquisition and construction of the Development;
- (b) obtained written approval by an Authorized Officer of final plans and specifications for the Development and provided, if required, assurance and documentation of a nature and in an amount sufficient in the opinion of an Authorized Officer, securing performance of the work in accordance

therewith, provided that no disbursement of construction costs shall be made until such approval is given and such assurance furnished;

(c) deposited with the Trustee or a Depository cash or an irrevocable letter of credit or other valuable consideration satisfactory to an Authorized Officer, in any amount by which the cost of the Development as estimated by the Agency exceeds the authorized amount of the Mortgage Loan.

The Agency may impose additional disbursement requirements, or modify the foregoing requirements, to the extent required to comply with the rules, regulations or procedures of any agency or instrumentality of the United States guaranteeing, insuring or otherwise participating in the making of a Mortgage Loan or the repayment thereof.

Alienation. Except as provided below, with respect to each Mortgage Loan, the Mortgage shall not permit the sale, lease or encumbrance of the Development without the written consent of the Agency, by its Authorized Officer, which consent may be given (but need not be given) only in the cases of:

- (a) receipt of full Prepayment conforming to the requirements stated below;
- (b) grant of easements, licenses or rights-of-way over, under or upon the site of the Development which, in the opinion of the Officer, do not destroy or diminish its usefulness for the purpose intended;
- (c) lease of the Development or a part thereof to a third party for the purpose of operation, provided that such lease is permitted by law and is subject to all of the terms, provisions and limitations of the Mortgage;
- (d) sale or exchange of any improved or unimproved land which in the opinion of an Authorized Officer is not needed for the efficient operation of the Development, provided that an appraisal acceptable to the Agency is received showing that the Development, subsequent to such release, has an appraised value not less than 110% of the outstanding principal balance of the Mortgage;
- (e) sale to another eligible Mortgagor approved by resolution of the Agency, who assumes all obligations of the original Mortgagor under the Mortgage and accompanying documents; in which case the Agency may release the original Mortgagor unless otherwise provided in the Mortgage;
- (f) grant of a parity mortgage lien on the Development or a portion thereof if such parity mortgage lien is given to secure financing for the expansion, improvement or renovation of the Development or portion thereof; or
- (g) grant of a subordinate mortgage lien on the Development or a portion thereof.

Enforcement. The Agency shall diligently enforce, and take all reasonable steps, actions and proceeding necessary for the enforcement, of all terms, covenants and conditions of Mortgages securing Mortgage Loans made by the Agency, including the prompt collection of Mortgage repayments and fees and charges and other Revenues.

Whenever it shall be necessary in order to protect and enforce the rights of the Agency under a Mortgage securing a Mortgage Loan and to protect and enforce the rights and interests of Bondholders under the Bond Resolution, the Agency shall commence foreclosure proceedings against each Mortgagor in default under the provisions of a Mortgage, shall bid for and purchase the Development covered by such Mortgage at the foreclosure or other sale thereof and shall acquire and take possession of such Development.

Upon foreclosure of a Mortgage securing a Mortgage Loan, or upon acquisition of the Development in lieu of foreclosure of a Mortgage in default, and so long as the Agency shall have title to or be in possession of the Development, the Agency shall, as the case may be, construct, operate and administer such Development in the place and stead of the Mortgagor in such manner as the Agency reasonably determines is in the best interests of the Bondholders. In so doing, the Agency, to the extent it may have money available for such purpose, including any money on deposit in the Mortgage Loan Account relating to the Development, may complete the construction and development thereof if not already completed in such manner as the Agency reasonably determines is in the best

interests of the Bondholders. From money provided by the Agency from the ownership and operation of the Development, to the extent such money is sufficient for the following purposes, the Agency shall first pay or make provision for payment of the costs and expenses of taxes, insurance, foreclosure fees, including appraisal and legal fees and similar expenses required to preserve or acquire unencumbered title to the Development, and after providing currently for these expenses shall pay the cost and expenses of operating the Development, including the repayments which the Mortgagor was obligated to pay pursuant to the terms and provisions of the Mortgage. The Trustee or other Depository of the Mortgage Loan Account established with respect to any Development foreclosed or otherwise acquired by the Agency prior to its completion shall be authorized to pay to the Agency upon its requisition any amount on deposit in the Mortgage Loan Account, upon receipt of an Officer's Certificate that such amount is required to pay an item that would have been included in the cost of the Development had the Agency not acquired the same. If the Agency determines that completion of the Development is not in the best interests of the Bondholders, the remaining funds in any such Mortgage Loan Account shall be disposed of in the same manner as set forth in the Bond Resolution for funds remaining in a Mortgage Loan Account upon completion of a Development or cancellation of a commitment to make a Mortgage Loan for a Development.

Upon or after foreclosure of a Development under a Mortgage securing a Mortgage Loan, or acquisition thereof from the Mortgagor in lieu of foreclosure:

- (a) the Agency may resell the Development to an eligible Mortgagor and make a Mortgage Loan with respect thereto as if such eligible Mortgagor were the original Mortgagor, subject to all of the terms, provisions, conditions and limitations contained in this section and "Program Covenants" below; or the Agency may sell the Development to a party other than an eligible Mortgagor;
- (b) the Agency shall not resell the Development for a price less than its fair market value as reasonably determined by the Agency through a solicitation of bids for the purchase of the Development or by an appraiser or other real estate consultant selected by the Agency and acceptable to the Trustee;
- (c) subsequent to such sale the Agency must remain in compliance with its Revenue Covenant under the Bond Resolution; and
- (d) all proceeds from the sale of any Development shall be considered a Recovery Payment and shall be deposited in the Suspense Account in the Redemption Fund.

The foregoing provisions regarding foreclosure of mortgages shall not apply to Mortgages securing Subordinate Mortgage Loans, and the Agency may proceed to protect and enforce the rights of the Agency under a Mortgage securing a Subordinate Mortgage Loan in such manner as the Agency, in its sole discretion, deems appropriate.

Modification. Except as otherwise permitted by the terms of the Bond Resolution, the Agency shall not consent to the modification of the security for or any terms or provisions of any Mortgage Loan or the Mortgage securing the same in a manner materially detrimental to Bondholders. No reduction in the interest rate or schedule of payments will be made which would result in a failure by the Agency to comply with its Revenue Covenant. Notwithstanding the foregoing, the Agency may consent to the modification of the terms of any Subordinate Mortgage Loan or Mortgage securing such loan in any manner and to any extent the Agency, in its sole discretion, deems appropriate.

Sale. The Agency may sell any Mortgage or other obligation securing a Mortgage Loan provided that after such sale an Authorized Officer determines the Agency will remain in compliance with its Revenue Covenant. The Agency may sell any Mortgage or other obligation securing a Subordinate Mortgage Loan upon such terms and conditions as the Agency, in its sole discretion, deems appropriate.

Program Covenants—Revenue Covenant

The Agency shall from time to time, with all practical dispatch and in a sound economical manner consistent in all respects with the Act as then amended and in effect and with the provisions of the Bond Resolution, use and apply the proceeds of the Bonds, to the extent not required by the Bond Resolution for other Program purposes, to make Mortgage Loans pursuant to the Act and the Bond Resolution, and shall do all such acts and

things as are necessary to receive and collect Revenues, Prepayments, Recovery Payments and Escrow Payments, consistent with sound practices and principles, and shall diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of the Mortgage Loans. The Agency shall also take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of Subordinate Mortgage Loans.

There shall at all times be scheduled payments of principal and interest on Mortgage Loans pledged under the Bond Resolution which, when added to any other legally enforceable payments on Mortgage Loans or with respect to the Bond Resolution (including Counterparty Hedge Payments), and interest and other income estimated by the Agency to be derived from the investment or deposit of money available therefor in any Fund or Account created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on all Outstanding Bonds (excluding from such calculations all amounts scheduled to be received pursuant to the provisions of Subordinate Mortgage Loans). In making a determination as of any date that the Agency is in compliance with this covenant, the Agency may make assumptions as to future events (including, as applicable, assumptions as to the amounts of Agency Hedge Payments and Counterparty Hedge Payments and the amount of interest payable on Variable Rate Bonds), which assumptions shall be based upon the Agency's reasonable expectations as of the date of such determination.

The Agency reserves the right:

- (a) at the time of issuance of any Series of Bonds for the purpose of repaying notes or Bonds the proceeds of which were used to make a Mortgage Loan, to consent to a reduction of the interest on that Mortgage Loan, provided that the Agency will then be in compliance with the preceding paragraph;
- (b) at any time, to forgive a portion of the interest on a Mortgage Loan by consenting to the establishment of scheduled payments of principal and interest lower than those required to amortize the Mortgage Loan during its then remaining term at the agreed interest rate, provided that (i) the scheduled payments of principal and interest on all Mortgage Loans, giving effect to that and all similar reductions then in effect, will in the aggregate be sufficient to comply with the preceding paragraph, and (ii) if it is subsequently determined by an Authorized Officer that such aggregate scheduled principal and interest payments will or may be insufficient for such compliance, such forgiveness may be terminated in whole or in part with respect to subsequent payments on that Mortgage Loan; and
- (c) to consent to any modifications to a Subordinate Mortgage Loan, including forgiving all or a portion of principal thereof or interest thereon, as the Agency may determine in its sole discretion. The Agency reserves the right to withdraw any amount from its General Reserve Account and deposit it in the Bond Fund in payment and satisfaction of a corresponding amount of the scheduled principal or interest payments on any Mortgage Loan. The Agency shall be entitled to recover from the Mortgagor any amounts so advanced, together with interest thereon at the rate payable on the Mortgage Loan, or to enforce its right to such recovery under the Mortgage, but only after all other defaults thereunder have been cured.

Deposit of Revenues and Other Money

The Agency will collect and deposit or will require a Servicer to collect and deposit with the Trustee or a Depository, on the date of receipt so far as practicable, all Revenues, Prepayments, Recovery Payments and Escrow Payments receivable from Mortgagors, and will forward or require the Depository to forward promptly to the Trustee statements of each amount deposited except Escrow Payments. The Trustee shall be accountable only for moneys actually so deposited, other than Escrow Payments. All moneys so deposited shall be apportioned by the Agency or Servicer and paid into and credited on the books of the Depository and the Trustee as follows:

- (a) Revenues to the Revenue Fund:
- (b) Prepayments and Recovery Payments to the Redemption Fund; and
- (c) Each Escrow Payment to an Escrow Account separately held by the Depository or the Agency.

Revenue Fund

As of the first and on or before the tenth day of each month after the first delivery of Bonds, on any Interest Payment Date or on any date as further provided in clause (d) below, from any moneys in the Revenue Fund then held by the Trustee and Depositories, the Trustee shall withdraw and pay into each of the following Funds the amount indicated in the following tabulation, or so much thereof as remains after first crediting to each Fund preceding it in the tabulation the full amount indicated for that Fund:

(a) to the Bond Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions), the amount needed to increase the aggregate balance therein to the Bond Requirement;

(b) to the Debt Service Reserve Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions), the amount needed to increase the aggregate balance therein to the Debt Service Reserve Requirement;

(c) to an Account in the Revenue Fund held by the Trustee at its Principal Office, the additional amount needed to make each of the payments which will be required under the foregoing clauses (a) and (b) to be made as of the first day of the following month:

(d) if payment of interest and Principal Installments, if any, then or theretofore due on all Outstanding Bonds has been made in full and the amounts on deposit in all Funds and Accounts referred to in clauses (a) to (c) equal or exceed the Requirements applicable thereto, to the Expense Fund, the amount then required to increase the balance therein to the Expense Requirement (provided that the Agency may elect to receive the Expense Requirement from time to time by payment directly from the Revenue Fund upon providing the Trustee with an Officer's Certificate as provided in the Bond Resolution); and

(e) when authorized by an Officer's Certificate, the Trustee may credit Revenues to the Bond Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions) upon receipt, up to the amount of the current Bond Requirement, and in excess of that requirement if the current Debt Service Reserve and Expense Requirements, if any, have been met.

In the event that on any Interest Payment Date, after payment of all interest and Principal Installments then due, the amounts in all Funds and Accounts referred to in clauses (a) to (d) equal or exceed the Requirements applicable thereto, any amount then on hand in the Revenue Fund and any Revenues thereafter received in excess of the current requirements of all of said Funds and Accounts may be transferred to the Agency's General Reserve Account, and shall be so transferred upon request in writing by an Authorized Officer; provided that no such transfer shall be made unless, after giving effect to such transfer, total assets of the Bond Resolution shall exceed total liabilities, determined in accordance with generally accepted accounting principles and evidenced by an Officer's Certificate.

The Agency reserves the right, in its sole and absolute discretion, to deliver to the Trustee from time to time funds not constituting Revenues or otherwise subject to the pledge of the Bond Resolution and an Officer's Certificate directing the Trustee to credit such funds to one or more Funds or Accounts hereunder, and the Trustee is authorized to credit such funds in accordance with the directions of the Officer's Certificate and such funds shall thereupon become subject to the lien and provisions of the Bond Resolution, as applicable.

Bond Fund

(a) The Trustee shall withdraw from the Bond Fund, prior to each Interest Payment Date an amount equal to the unpaid interest due on the Outstanding Bonds on or before that date, and shall cause it to be applied to the payment of said interest when due, or shall transmit it to one or more Paying Agents who shall apply it to such payment as provided in Series Resolutions.

(b) If the withdrawals required under (a) above on the same and every prior date have been made, the Trustee shall withdraw from the Bond Fund, prior to each Principal Installment Date and Sinking Fund Installment Date, an amount equal to the principal amount or Accreted Value of the outstanding Bonds, if any, maturing or subject to mandatory redemption on or before that date and shall cause it to be

applied to the payment of the principal or Accreted Value of said Bonds when due or transmit it to Paying Agents who shall apply it to such payment.

(c) Each withdrawal from the Bond Fund under (a) and (b) above shall be made not earlier than five (5) days prior to the Interest Payment or Principal Installment Date or Sinking Fund Installment Date to which it relates, and the amount so withdrawn shall be deemed to be part of the Bond Fund until the Interest Payment Date or Principal Installment Date or Sinking Fund Installment Date.

(d) The Trustee shall apply money in the Bond Fund to the purchase or the redemption of Outstanding Term Bonds subject to mandatory redemption in the manner provided in this paragraph and Section 702 of the Bond Resolution, provided that no such Bond shall be purchased during the period of thirty (30) days next preceding the Date of a Sinking Fund Installment established for such Bonds. The price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased pursuant to this paragraph shall not exceed the Redemption Price applicable on the next date on which such Bond could be redeemed in accordance with its terms as part of a Sinking Fund Installment. Subject to the limitations set forth and referred to in this paragraph, the Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner (whether after advertisement for tenders or otherwise) as the Agency may determine in an Officer's Certificate furnished to the Trustee.

(e) As soon as practicable after the forty-fifth and before the thirtieth day prior to the Date of each Sinking Fund Installment, unless a different notice period is required by the applicable Series Resolution, the Trustee shall call for redemption on that date the principal amount or Accreted Value of the remaining Bonds entitled to said Installment, and on that date the Trustee shall apply the money in the Bond Fund to the payment of the Redemption Price of the Bonds so called for redemption.

(f) If, on any Interest Payment Date for Bonds that are subject to a Hedge Agreement, payment of interest and Principal Installments, if any, then or theretofore due on all Outstanding Bonds has been made in full and the amounts on deposit in all Funds and Accounts referred to in clauses (a) to (c) under the heading "Revenue Fund" equal or exceed the Requirements applicable thereto, then any amounts on hand in the Bond Fund in excess of the Bond Requirement on such date shall be transferred to the Expense Fund upon the written request of an Authorized Officer if required to increase the balance therein to the Expense Requirement in respect of Agency Hedge Payments and credit or liquidity support or remarketing fees then owing.

(g) No amount is to be withdrawn or transferred from or paid out of the Bond Fund except as described in this Section.

Debt Service Reserve Fund

(a) If at any time there is not a sufficient amount in the Bond Fund to provide for the payment when due of Principal Installments of and interest on the Outstanding Bonds, the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Bond Fund the amount of the deficiency then remaining. The Trustee shall notify the Agency in writing ten (10) days prior to any such withdrawal from the Debt Service Reserve Fund.

(b) In addition to the payments made into the Debt Service Reserve Fund pursuant to Section 404 of the Bond Resolution or otherwise, the Agency shall deposit in the Debt Service Reserve Fund any money appropriated and paid to the Agency by the State pursuant to the Act for the purpose of restoring the Debt Service Reserve Fund to the Debt Service Reserve Requirement.

(c) If as of the first day of any month the amount in the Debt Service Reserve Fund exceeds the Debt Service Reserve Requirement, the Trustee within ten (10) days thereafter shall withdraw any amount therein in excess of the Debt Service Reserve Requirement, and pay the same into the Revenue Fund.

(d) The Agency shall at all times maintain the Debt Service Reserve Fund and will do and perform or cause to be done and performed each and every act and thing with respect to the Debt Service

Reserve Fund provided to be done or performed by or on behalf of the Agency or the Trustee under the terms and provisions of Article IV of the Bond Resolution and of the Act.

(e) In order to better secure the Bonds and to make them more marketable and to maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement, and in accordance with the provisions of Section 22, Subdivision 8 of the Act, the Agency shall cause the Chairperson, annually, on or before December 1 of each year, to make and deliver to the Governor of the State a certificate stating (a) the amount, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement (but not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all Bonds and Notes which are then Outstanding and secured by the Debt Service Reserve Fund) and (b) the amount, if any, determined by the Agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received into the Revenue Fund during that year, for the payment of the principal and interest due and payable in that year on all then Outstanding Bonds and Notes secured by the Debt Service Reserve Fund. All moneys received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 8 of the Act pursuant to any such certification shall be paid to the Trustee for deposit in and credit to the Debt Service Reserve Fund or Revenue Fund, as provided in the Bond Resolution.

(f) No amount is to be withdrawn from or paid out of the Debt Service Reserve Fund except as described in this Section.

Expense Fund

(a) Money deposited in the Expense Fund, if any, shall be disbursed for the payment of continuing expenses of the Program (including operating and maintenance expenses of Developments in the possession of the Agency), any Agency Hedge Payments owing from time to time to a Hedge Counterparty pursuant to a Hedge Agreement and any fees or expenses owing from time to time to a person or entity providing credit or liquidity support or remarketing services in respect of any Bonds upon receipt of an Officer's Certificate stating the name of the party to be paid, the amount to be paid and the purpose of the payment.

(b) Income received or other money held in the Expense Fund in excess of the Expense Requirement shall be credited by the Trustee to the Revenue Fund.

(c) No amount is to be withdrawn, transferred or paid out of the Expense Fund except as described in this Section.

Redemption Fund

(a) The Trustee shall establish a Suspense Account in the Redemption Fund, to which it shall credit all Prepayments and Recovery Payments, and all surplus amounts transferred from Mortgage Loan Accounts under Section 307(G) of the Bond Resolution; each of which shall be used and applied as directed by an Officer's Certificate, either (i) to provide additional funds to a Mortgage Loan Account for an increase in the amount of a Mortgage Loan authorized by the Agency, or (ii) for the establishment of one or more Mortgage Loan Accounts for new Mortgage Loans made by the Agency, or (iii) for the purchase or redemption of Outstanding Bonds, or (iv) if no Bonds of a Series are Outstanding and Prepayments have been received from one or more Mortgage Loans financed by Bonds of the Series, any such remaining Prepayments, for the payment of any Agency Hedge Payments under, or any amounts payable by the Agency upon early termination of, a Hedge Agreement relating to such Series of Bonds; provided that as of the first day of each month while any Prepayment or Recovery Payment is held in the Suspense Account, the Trustee shall transfer from that Account to the Bond Fund the scheduled monthly payment of principal of the Mortgage Loan with respect to which the Prepayment or Recovery Payment was received, less the amount of any payment of principal actually received with respect to such Mortgage Loan, if such transfer is required in order to meet the Bond Requirement.

(b) By Officer's Certificate the Agency may authorize the increase of any Mortgage Loan or the making of a new Mortgage Loan as contemplated above, and for that purpose may appropriate any

money at the time available in or transferred to the Redemption Fund in accordance with the provisions of Article IV of the Bond Resolution to one or more designated Mortgage Loan Accounts for disbursement pursuant to Section 307 of the Bond Resolution. Upon the filing with the Trustee of the Officer's Certificate, the Trustee shall withdraw from the Redemption Fund and deposit the amount authorized in each Mortgage Loan Account designated in the Certificate.

(c) Upon receipt of the Officer's Certificate referred to in Section 702 of the Bond Resolution, the Trustee shall apply money in the Redemption Fund not otherwise applied in accordance with paragraphs (a) and (b) above to the purchase of Bonds designated in the Certificate at the most advantageous price obtainable with due diligence. Bonds not so purchased may be redeemed at a Redemption Price determined by Series Resolution at the time and in the manner provided in Article VII of the Bond Resolution. Bonds shall not be purchased pursuant to this paragraph during the period of forty-five (45) days next preceding a redemption date from money to be applied to the redemption of Bonds on such date.

(d) Notwithstanding the foregoing, any Prepayment or Recovery Payment received with respect to a Subordinate Mortgage Loan may be used and applied, as directed by an Officer's Certificate, in such manner as the Agency, in its sole discretion, may determine.

(e) Income from the investment of the Redemption Fund shall be credited as received to the Revenue Fund.

(f) No amount is to be withdrawn or transferred from or paid out of the Redemption Fund except as described above.

Escrow Accounts

Escrow Payments received by the Agency or a Servicer, whether separately or as part of some other payment, shall be deposited in an Escrow Account and shall be promptly applied by the Agency or Servicer to the purpose for which such payments were received, and any such payments received by the Trustee or a Depository, whether separately or as part of some other payment, shall immediately be paid to the Agency and applied by the Agency to the purpose for which they were received.

General Reserve Account

All amounts authorized in Article IV of the Bond Resolution to be withdrawn from the Revenue Fund and deposited in the General Reserve Account of the Agency shall be free and clear of any lien or pledge created by the Bond Resolution and may be used for any purpose authorized by the Act, subject to the provisions of Section 102, clauses (6) and (7) of the Bond Resolution.

Investment and Deposit of Funds

(a) Subject to instructions from time to time received from an Authorized Officer (which need not be in writing), and with the objective of assuring the maximum yield reasonably possible on money held in each Fund, each Fiduciary shall keep all money held by it invested and reinvested, as continuously as reasonably possible, in Investment Obligations defined in Section 103 of the Bond Resolution (including interest-bearing time deposits and certificates of deposit). All Investment Obligations shall mature or be redeemable (at the option of the holder) and bear interest payable at the times and in the amounts estimated to be necessary to provide funds for Mortgage Loan disbursements and for the payment of the principal and Accreted Value of and interest and premium, if any, on Bonds when due or when scheduled for redemption pursuant to applicable Series Resolutions. The maturity date of a security purchased under a repurchase agreement shall be deemed to be the agreed repurchase date. The maturity date of a time deposit or certificate of deposit shall be deemed to be any date on which, with such notice as may be required, the deposit may be withdrawn without loss of interest.

(b) Money in separate Funds may be commingled for the purpose of investment or deposit, subject to instructions from an Authorized Officer, to the extent possible in conformity with the provisions of paragraph (a) of this Section. Moneys in separate funds or series accounts may be invested in common

trust funds or pools of which such money forms a part pursuant to the terms of which each Fund or series account is allocated a share of a pooled security proportionate to the amount contributed to the purchase price of the pooled security, subject to the provisions of paragraph (a) of this Section and to the restrictions on Investment Obligations imposed by each Series Resolution. Investments shall be sold at the best price obtainable, and amounts held in certificates of deposit or time deposits shall be withdrawn, whenever necessary in order to make any disbursement or repurchase of Mortgage Loans, payment of expenses of debt service. Investment Obligations need not be disposed of to make required transfers from one Fund or Account to another, but one or more Investment Obligations or portions thereof may be transferred in lieu of cash.

(c) Subject to approval by an Authorized Officer, the Trustee or another Fiduciary may apply money pertaining to any Fund or Account created by or pursuant to the Bond Resolution to the purchase of Investment Obligations owned by it or its individual capacity, and may sell to itself in its individual capacity Investment Obligations held by it in any such Fund or Account as such Fiduciary.

Additional Bonds

The Bond Resolution provides that after authorization by a Series Resolution and compliance with such requirements as are set forth therein, Bonds of any Series may be delivered upon the following, among other, conditions:

The Agency shall furnish to the Trustee:

(a) copies of the Bond Resolution and the applicable Series Resolution, certified by an Authorized Officer;

(b) a Counsel's Opinion that:

(i) the Bond Resolution and the applicable Series Resolution have been duly adopted by the Agency and are valid and binding upon it and enforceable in accordance with their terms;

(ii) the Bond Resolution creates the valid pledge which it purports to create; and

(iii) the principal amount of the Bonds to be issued and other obligations theretofore issued by the Agency does not exceed any legal limitation;

(c) an Officer's Certificate stating:

(i) the amounts to be deposited in all Funds and Accounts;

(ii) that the issuance of the Bonds will have no material adverse effect on the ability of the Agency to pay the Principal Installments of and interest on all Bonds (including the Outstanding Bonds and the Bonds then to be issued);

(iii) that after such issuance there will be scheduled payments of principal and interest on Mortgage Loans then held by the Agency or to be made or purchased by the Agency from the proceeds of such Series of Bonds (or from the proceeds of Notes paid or to be paid from the proceeds of the Bonds) which, with any other legally enforceable payments with respect to such Mortgage Loans or with respect to the Bond Resolution (including Counterparty Hedge Payments), and with interest or other income estimated by the Agency to be derived from the investment or deposit of money available therefor in all Funds and Accounts created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on the Bonds then Outstanding and the additional Series of Bonds on their Principal Installment and Interest Payment Dates (excluding from such calculations the amounts to be received by the Agency pursuant to any Subordinate Mortgage Loans); provided that, in making such statement the Authorized Officer may set forth the assumptions upon which the statement is based (including, without limitation, assumptions as to the amounts of Agency Hedge Payments and Counterparty Hedge Payments and

the amount of interest payable on Variable Rate Bonds), which assumptions shall be based upon the Agency's reasonable expectations as of the date of such Officer's Certificate; and

(iv) that the balance in the Debt Service Reserve Fund immediately prior to the issuance of such Bonds is not less than the Debt Service Reserve Requirement computed with reference to the Outstanding Bonds (except Outstanding Bonds which are to be refunded by the additional Bonds); and

(d) if the Bonds to be issued are Variable Rate Bonds or are the subject of a Hedge Agreement, written confirmation from each Rating Agency that the issuance of such Bonds will not impair the Rating on any Bonds then Outstanding.

The Trustee shall determine and certify:

(a) that it has received the documents listed above; and

(b) that the amount of Bond proceeds or other funds of the Agency to be deposited in the Debt Service Reserve Fund is sufficient to increase the amount in the Fund to the Debt Service Reserve Requirement effective after the issuance of the Bonds, as computed by the Trustee.

Hedge Agreements

The Agency may from time to time enter into one or more Hedge Agreements with respect to any Series of Bonds outstanding or proposed to be issued on the terms and conditions and subject to the limitations set forth in this section and elsewhere in the Bond Resolution. The Agency shall not enter into a Hedge Agreement unless (1) as of the date the Agency enters into the Hedge Agreement, either the Hedge Counterparty or the person or entity executing a Hedge Counterparty Guarantee relating thereto has outstanding unsecured long-term debt obligations rated by, or other applicable rating given by, as high as or higher than the Rating on the Outstanding Bonds; and (2) if the Hedge Agreement relates to Outstanding Bonds, the Trustee receives written confirmation from each Rating Agency that the execution and delivery of the Hedge Agreement by the Agency will not impair the Rating on any Bonds then Outstanding. To secure its obligation to make Agency Hedge Payments to a Hedge Counterparty pursuant to a Hedge Agreement, the Agency may grant to the Hedge Counterparty a subordinate and junior pledge and security interest (subordinate and junior to the pledge and security interest granted to the Bondholders) in all or any of the Revenues, Prepayments, Recovery Payments or any other moneys, securities, Funds or Accounts hereunder; provided, however, that the payment of Agency Hedge Payments shall not be secured by the Debt Service Reserve Fund. Nothing in this Section 205 is intended to prohibit the Agency from securing any payments it is obligated to make in respect of the early termination of a Hedge Agreement by the full faith and credit of the Agency, by amounts to be transferred to the General Reserve Account pursuant to the last sentence of the first paragraph under the heading "Revenue Fund" or by other moneys, assets or revenues of the Agency not pledged to the payment of Outstanding Bonds under the Bond Resolution.

Amendments of the Bond Resolution

Amendments of or supplements to the Bond Resolution may be made by a Supplemental Bond Resolution (a "Supplemental Resolution").

Supplemental Resolutions may become effective upon filing with the Trustee if they add restrictions on the Agency, add covenants by the Agency, surrender privileges of the Agency, authorize additional Bonds and fix the terms thereof or affect only Bonds not yet issued.

Supplemental Resolutions become effective upon consent of the Trustee if they concern only curing or clarifying an ambiguity, omission, defect or inconsistency, or make any other change which, in the judgment of the Trustee, is not prejudicial to the Trustee and which does not adversely affect the interests of Bondholders. Other Supplemental Resolutions become effective only with consent of the Holders of at least a majority in principal amount and Accreted Value of the Outstanding Bonds affected thereby.

However, no amendment shall permit a change in the terms of redemption or maturity of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or Accreted Value thereof or

the Redemption Price thereof or the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentage of the Holders the consent of which is required to effect any such amendment, without unanimous consent of the Bondholders.

Any amendment may be made with unanimous consent of the Bondholders, except that no amendment shall change any of the rights or obligations of any Fiduciary without the consent of the Fiduciary.

Defeasance

If the Agency shall pay or cause to be paid to the Holders of the Bonds, the principal, Accreted Value and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Bond Resolution, then, unless there shall be an Officer's Certificate delivered to the Trustee to the contrary, the pledge of the Revenues, Prepayments, Recovery Payments and other moneys, securities and funds pledged by the Bond Resolution and the covenants, agreements and other obligations of the Agency to the Bondholders thereunder shall be discharged and satisfied.

Bonds and interest thereon for the payment or redemption of which moneys shall have been deposited with the Trustee shall be deemed to have been paid, provided that, if any of such Bonds are to be redeemed prior to the maturity thereof, provision satisfactory to the Trustee shall have been made for the giving of notice of redemption thereof. Moneys so held by the Trustee shall be invested by the Trustee, as directed by the Agency, in Investment Obligations which are direct obligations of the United States or guaranteed by the United States. If the maturing principal of such Investment Obligations and the interest to fall due thereon at least equal the amount of money required for the payment on any future date of the interest on and principal of or Redemption Price on such Bonds, the Bonds shall be deemed to have been paid.

Events of Default

Each of the following shall constitute an event of default under the Bond Resolution: (a) interest on any of the Bonds is not paid on any date when due, or the principal, Accreted Value or Redemption Price of any of the Bonds is not paid at maturity or at a Redemption Date at which the Bonds have been called for redemption; (b) Bonds subject to redemption by operation of Sinking Fund Installments shall not have been redeemed and paid in the amount required in the applicable Series Resolution on any date; (c) a default shall be made in the observance or performance of any covenant, contract or other provision in the Bonds, the Bond Resolution, or applicable Series Resolution contained and such default shall continue for a period of ninety (90) days after written notice to the Agency from a Bondholder or from the Trustee specifying such default and requiring the same to be remedied; or (d) certain acts of bankruptcy, insolvency or reorganization by the Agency.

Remedies

Upon the happening and continuance of an event of default, the Trustee may, and shall upon the request of the Holders of twenty-five percent (25%) in principal amount and Accreted Value of the Bonds then Outstanding affected by an event of default described in clause (a) or (b) of "Events of Default" above, or twenty-five percent (25%) in principal amount and Accreted Value of all Bonds then Outstanding if the event of default is one described in clauses (c) or (d) of "Events of Default" above, proceed to protect and enforce the rights of the Bondholders under the laws of the State of Minnesota or under the Bond Resolution. No Bondholder shall have the right to institute any proceedings for any remedy under the Bond Resolution unless the Trustee, after being so requested to institute such proceedings and offered satisfactory indemnity, shall have refused or neglected to comply with such request within a reasonable time and unless the proceeding is brought for the ratable benefit of all Holders of all Bonds. However, nothing in the Bond Resolution contained is intended to affect or impair the right of any Bondholder to enforce the payment of the principal or Accreted Value of and interest on his Bonds at the time and place expressed in the Bonds.

APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

General

The Depository Trust Company, New York, New York (“DTC”), is to act as securities depository for the Series Bonds. The ownership of one fully registered Series Bond for each maturity of the Series Bonds in the aggregate principal amount of that maturity will be registered in the name of Cede & Co., DTC’s partnership nominee. *So long as Cede & Co. or another nominee designated by DTC is the registered owner of the Series Bonds, references herein to the Bondholders, Holders or registered owners of Series Bonds will mean Cede & Co. or the other nominee and will not mean the Beneficial Owners (as hereinafter defined) of the Series Bonds.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of beneficial ownership interests in the Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series Bonds, except in the event that use of the Book-Entry System for the Series Bonds is discontinued as described below.

To facilitate subsequent transfers, all Series Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or another name as may be requested by an authorized representative of DTC. The deposit of Series Bonds with DTC and their registration in the name of Cede & Co. or other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts the Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Series Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor other DTC nominee) will consent or vote with respect to any Series Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the bond issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal, redemption price, and interest on the Series Bonds will be made to Cede & Co., or another nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the bond issuer or trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of the Participant and not of DTC, the Trustee or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price, and interest to Cede & Co. (or other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of payments to Direct Participants will be the responsibility of DTC, and disbursement of payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under the Resolutions, payments made by or on behalf of the Agency to DTC or its nominee satisfy the Agency's obligations to the extent of the payments so made.

The above information contained in this section "Book-Entry-Only System" is based solely on information provided by DTC. No representation is made by the Agency or the Underwriter as to the completeness or the accuracy of that information or as to the absence of material adverse changes in that information subsequent to the date hereof.

The Agency, the Underwriter and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series Bonds (i) payments of principal of or interest and premium, if any, on the Series Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.

Neither the Agency, the Underwriter nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Resolutions to be given to Holders of Series Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Series Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to the Series Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under those circumstances, the Series Bonds are required to be delivered as described in the Resolutions. The Beneficial Owner, upon registration of Series Bonds held in the Beneficial Owner's name, will become the Bondholder.

The Agency may determine to discontinue the system of book entry transfers through DTC (or a successor securities depository) for the Series Bonds. In that event, the Series Bonds are to be delivered as described in the Resolutions.

APPENDIX F
FORM OF OPINION OF BOND COUNSEL

_____, 2020

Minnesota Housing Finance Agency
St. Paul, Minnesota 55102

Minnesota Housing Finance Agency
Rental Housing Bonds
2020 Series B

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the “Agency”) in connection with the authorization, issuance and delivery by the Agency of its Rental Housing Bonds, 2020 Series B, in the aggregate principal amount of \$_____ (the “2020 Series B Bonds”), which are issuable only as fully registered bonds of single maturities in denominations of \$5,000 or any integral multiple thereof.

The 2020 Series B Bonds are dated, mature on the date, bear interest at the rate and are payable as provided in the Series Resolution referenced below. The 2020 Series B Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, as provided in the Series Resolution referenced below.

As bond counsel, we have examined certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency’s Bond Resolution adopted February 25, 1988, as amended and supplemented (the “Bond Resolution”), and the Series Resolution relating to the 2020 Series B Bonds adopted August 27, 2020 (the “Series Resolution”). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

From such examination, and assuming continuing compliance by the Agency and the owner of the Development financed by the 2020 Series B Bonds with the covenants contained in the Bond Resolution, the Series Resolution and the loan documentation relating to the Development, it is our opinion that, under existing law as of the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Mortgage Loans, Revenues, moneys, securities and other Funds held and to be set aside under the Bond Resolution and Series Resolution; (3) the 2020 Series B Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond Resolution and Series Resolution, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, and federal or state laws heretofore enacted appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2020 Series B Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2020 Series B Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the

Minnesota Housing Finance Agency

_____, 2020

Page 2

Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to such Debt Service Reserve Fund; and (5) the interest payable on the 2020 Series B Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; provided, however, interest on any 2020 Series B Bond is not excluded from gross income for federal income tax purposes of any holder of such bonds who is a “substantial user” of a development financed by such 2020 Series B Bond or a “related person” thereto, as such terms are defined in Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”).

Interest on the 2020 Series B Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals. Interest on the 2020 Series B Bonds will not be treated as an item of tax preference for purposes of calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal, state or local tax consequences arising from the ownership or disposition of the 2020 Series B Bonds. All owners of 2020 Series B Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2020 Series B Bonds.

Noncompliance by the Agency or the owner of the Development financed by the 2020 Series B Bonds with their covenants in the Bond Resolution, Series Resolution or applicable loan documentation relating to the Development may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the 2020 Series B Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2020 Series B Bonds, the Bond Resolution and the Series Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors’ rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully yours,

RESOLUTION NO. MHFA 20-038

RESOLUTION RELATING TO RENTAL HOUSING BONDS; AUTHORIZING THE ISSUANCE AND SALE THEREOF FOR A MULTIFAMILY HOUSING DEVELOPMENT IN LE SUEUR, MINNESOTA

BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY:

Section 1. Background and Recitals. By Resolution No. MHFA 88-12, adopted February 25, 1988, as heretofore amended and supplemented (as so amended and supplemented and as from time to time hereafter amended or supplemented in accordance with its terms, the “Bond Resolution”), the Agency has provided the terms and conditions for the issuance and the covenants and agreements for the security of its Rental Housing Bonds to be issued for the purposes of its Program of making or purchasing Mortgage Loans to finance the acquisition, construction, rehabilitation and betterment of rental housing intended for occupancy primarily by persons of low and moderate income. It is now determined to be necessary and desirable to provide for the issuance of a series of Bonds pursuant to the Bond Resolution and Minnesota Statutes, Chapter 462A, as amended, to be used to finance one Mortgage Loan (the “Mortgage Loan”) to a Mortgagor (the “Mortgagor”) for the purposes of financing the acquisition and construction of the multifamily housing development (the “Development”) described in Exhibit A hereto (which is hereby incorporated herein and made a part hereof). All terms defined in the Bond Resolution are used with like meaning in this resolution. This resolution is referred to herein as the “Series Resolution.” The Mortgage Loan to the Mortgagor shall be evidenced by a Mortgage Note to be executed by the Mortgagor to the Agency and a Mortgage to be entered into between the Mortgagor and the Agency and certain other documents referred to in the Mortgage (collectively, the “Loan Documents”).

Section 2. Authorization of Series Bonds.

(a) *Purpose.* To provide sufficient funds to be used and expended for the purposes set forth in Section 1, it is now determined to be necessary to issue one series of Bonds pursuant to the Bond Resolution, which is designated as “Rental Housing Bonds, 2020 Series,” in the principal amount to be determined pursuant to Section 2(E) (the “Series Bonds”). The “2020” in the designation of the Bonds may be changed to “2021” and “Series” followed by an uppercase letter, each as an Authorized Officer of the Agency (as hereinafter defined) shall so designate. Proceeds of the Series Bonds are to be used:

- (i) For the financing of the Mortgage Loan to the Mortgagor; and
- (ii) Incident to this purpose, for the funding of the deposit of amounts determined by and pursuant to Section 303 of the Bond Resolution to be paid into the Funds and Accounts referred to in Sections 302 and 402 thereof.

(b) *Single Issue.* Pursuant to the provisions of Section 1.150-1(c)(1) of the Income Tax Regulations (the “Regulations”), the Agency may treat the Series Bonds, together with any other Bonds issued or to be issued pursuant to the Bond Resolution which may be sold by the Agency less than fifteen days apart from the date of sale of the Series Bonds, as a single issue of bonds. The Series Bonds and such other Bonds are herein collectively referred to as the “Issue.”

(c) *Pledge.* The pledge made and security interests granted in the Bond Resolution and all covenants and agreements made by the Agency therein, are made and granted for the equal benefit, protection and security of the Holders of all of the Series Bonds and other Outstanding Bonds issued and to be issued thereunder, without preference, priority or distinction of one Bond over any other of any Series, except as otherwise expressly provided for therein.

(d) *Debt Service Reserve Requirements.* Upon issuance of the Series Bonds, the Debt Service Reserve Requirement for the Series Bonds shall be as established in the Officer’s Certificate delivered by an Authorized Officer to the Trustee pursuant to Sections 5 and 6 of this Series Resolution.

(e) *Sale and Offering Documents.* The Agency hereby authorizes the issuance and sale of the Series Bonds for the purposes described in Section 2(a). It is acknowledged that the final terms of the Series Bonds have not been determined as of this date.

The Series Bonds may be offered for sale by negotiating for the sale of the Series Bonds to RBC Capital Markets, LLC, as underwriter (the “Underwriter”) pursuant to a preliminary official statement and a bond purchase agreement.

The Agency has received and examined a draft of the form of a Preliminary Official Statement (the “Preliminary Official Statement”), containing information relating to the Agency, the Bond Resolution, the Series Resolution, the Development and the Series Bonds. Any of the Chair, the Commissioner, the Chief Financial Officer or the Finance Director (each an “Authorized Officer”) is hereby authorized to finalize the Preliminary Official Statement and establish the date of sale of the Series Bonds.

Any Authorized Officer is hereby authorized to approve the final terms of the Series Bonds as follows, subject to the following parameters:

(i) the principal amount of the Series Bonds; provided that the principal amount of the Series Bonds is not in excess of \$5,665,000;

(ii) the maturity date of the Series Bonds; provided that the Series Bonds mature at any time in such amount not later than 3 years from the Issue Date thereof;

(iii) the interest rate borne by the Series Bonds; provided that the interest rate on the Series Bonds shall not exceed 3.50%; and

(iv) the commission payable to the Underwriter of the Series Bonds; provided that the commission shall not exceed three percent of the principal amount of the Series Bonds.

Such approval shall be conclusively evidenced by the execution of a bond purchase agreement with the Underwriter (the “Purchaser”) by such Authorized Officer. The terms of the Series Bonds, including the purchase price, shall be set forth in the Officer’s Certificate delivered by an Authorized Officer pursuant to Section 5(c) hereof.

Following a negotiated sale of the Series Bonds to the Underwriter, preparation and distribution of an Official Statement, substantially in the form of the Preliminary Official Statement, except for revisions required or approved by counsel for the Agency, and insertion of the final terms of such Series Bonds, is approved and the final Official Statement is authorized to be signed by the Chair or the Commissioner, and furnished to the Underwriter in a reasonable quantity for distribution to investors.

The Agency has received and examined a draft of the form of the bond purchase agreement (the “Bond Purchase Agreement”). An Authorized Officer is authorized to execute and deliver in the name and on behalf of the Agency the Bond Purchase Agreement with the Purchaser reflecting the terms of sale authorized pursuant to this Section 2(e).

(f) *Approval of Continuing Disclosure Undertaking.* The Agency has also examined the form of a Continuing Disclosure Undertaking relating to the Series Bonds, wherein the Agency will covenant for the benefit of the beneficial owners of the Series Bonds to provide annually certain financial information and operating data relating to the Agency and to provide notices of the occurrence of certain enumerated events. The Continuing Disclosure Undertaking is approved substantially in the form submitted and is authorized to be signed on behalf of the Agency by an Authorized Officer.

Section 3. Forms.

(a) *Generally.* The Series Bonds shall be issuable only in the form of fully registered Bonds, subject to transfer, re-registration and exchange as provided in Article VI of the Bond Resolution. The Series Bonds shall be numbered serially and no Series Bonds, whether issued initially or upon re-registration, transfer or exchange, shall bear the same number as any other Series Bond of the same series which is contemporaneously outstanding.

(b) *Form of Series Bonds.* The Series Bonds shall be in substantially the form of Exhibit B hereto (which is hereby incorporated herein and made a part hereof), with such additions, deletions or modifications as are permitted or required by the Bond Resolution or this Series Resolution, including but not limited to changes required as a result of the sale of the Series Bonds in accordance with Section 2(e) and the spacing and rearrangement of the text to facilitate machine entry of data upon registration, transfer and exchange.

Section 4. Terms of Series Bonds.

(a) *Issue Date, Denominations and Interest Payment Dates.* The Issue Date of the Series Bonds shall be the date of original delivery of the Series Bonds or such other date as shall be approved by an Authorized Officer and as set forth in the Officer's Certificate delivered by an Authorized Officer pursuant to Section 5(c) hereof. The Series Bonds shall be issued in denominations of \$5,000 principal amount or any integral multiple thereof, not exceeding the principal amount maturing on any maturity date. Interest on the Series Bonds shall be payable each February 1 and August 1, commencing February 1, 2021, or a subsequent August 1 or February 1 as set forth in the Official Statement of the Agency furnished to the Underwriter pursuant to Section 2(e) of this Series Resolution or the Officer's Certificate delivered by an Authorized Officer pursuant to Section 5(c) hereof, as the case may be.

(b) *Maturities, Interest Rates and Redemption.* The Series Bonds shall mature on the date or dates and in the principal amounts, shall bear interest at the rate or rates per annum, and shall be subject to redemption as set forth in the Official Statement of the Agency furnished to the Underwriter pursuant to Section 2(e) of this Series Resolution or in the Officer's Certificate delivered by an Authorized Officer pursuant to Section 5(c) hereof, as the case may be, all subject to the limitations in Section 2(e).

(c) *Procedure for Redemption.* All actions taken by the Agency and the Trustee in the redemption of Series Bonds shall conform to the provisions of Article VII of the Bond Resolution, save and except as otherwise expressly provided in this paragraph. Upon selection of a Series Bond or Bonds or portions thereof to be redeemed, the Trustee shall give notice, in the name of the Agency, of the redemption of such Bonds, which notice shall contain the information required by Section 702 of the Bond Resolution. The Trustee shall mail such notice, postage prepaid, not less than thirty (30) days before the redemption date, to the registered Holder of any Series Bond all or a portion of which is to be redeemed, at the Holder's last address appearing on the registry books as of the Record Date. Notice having been so mailed, the Series Bond or Bonds or portion thereof therein specified shall be due and payable at the specified redemption date and price, with accrued interest, and funds for such payment being held by or on behalf of the Trustee so as to be available therefor, interest thereon shall cease to accrue, and such Series Bonds or portions thereof shall no longer be considered Outstanding under the Bond Resolution.

(d) *Trustee.* The principal amount of and interest and any redemption premium on the Series Bonds shall be payable in lawful money of the United States by check drawn to the order of the registered owner, or other agreed means of payment, by Wells Fargo Bank, National Association, in Minneapolis, Minnesota, the Trustee and Paying Agent under the Bond Resolution, or its successor, and shall be payable to the registered owner as shown on the registry books as of the Record Date. The principal amount of and any redemption premium on a Series Bond shall be payable only upon surrender of the Series Bond at the Principal Office of the Trustee (subject to the provisions of Section 607 of the Bond Resolution in the case of Bonds which are mutilated, destroyed, stolen or lost), except as otherwise provided in Section 5(b) herein.

(e) *Record Date.* For purposes of this Series Resolution, where the Trustee is required to establish a Record Date hereunder, said Record Date for (i) payment of principal of and interest on the Series Bonds shall be the fifteenth (15th) day (whether or not a business day) of the month immediately preceding the payment date and (ii) for purposes of giving notice of redemption or other notice pursuant to the provisions of the Bond Resolution or Series Resolution, the last business day of the month preceding the month in which such notice is mailed.

Section 5. Issuance and Delivery.

(a) *Preparation and Execution.* The Series Bonds shall be prepared in substantially the form incorporated herein, in denominations requested by the Purchaser, and shall be executed in the manner provided in Article VI of the Bond Resolution, by the facsimile signatures of the Chairman and Commissioner of the Agency and shall be authenticated by the Trustee by manual signature of an authorized representative and shall be delivered to the Purchaser after compliance with the conditions set forth in this Section and upon deposit of the proceeds with the Trustee.

(b) *Securities Depository.*

(i) For purposes of this section the following terms shall have the following meanings:

“Beneficial Owner” shall mean, whenever used with respect to a Series Bond, the person in whose name such Series Bond is recorded as the beneficial owner of such Series Bond by a Participant on the records of such Participant, or such person’s subrogee.

“Cede & Co.” shall mean Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Series Bonds.

“Participant” shall mean any broker-dealer, bank or other financial institution for which DTC holds Series Bonds as securities depository.

(ii) The Series Bonds shall be initially issued as separately authenticated fully registered bonds, and one Series Bond shall be issued in the principal amount of each stated maturity of the Series Bonds. Upon initial issuance, the ownership of the Series Bonds shall be registered in the bond register in the name of Cede & Co., as nominee of DTC. The Trustee and the Agency may treat DTC (or its nominee) as the sole and exclusive owner of the Series Bonds registered in its name for the purposes of payment of the principal of, premium, if any, and interest on the Series Bonds, selecting the Series Bonds or portions thereof to be redeemed, if any, giving any notice permitted or required to be given to registered owners of Series Bonds under the Bond Resolution or this Series Resolution, registering the transfer of Series Bonds, and for all other purposes whatsoever, and neither the Trustee nor the Agency shall be affected by any notice to the contrary. Neither the Trustee nor the Agency shall have any responsibility or obligation to any Participant, any person or entity claiming a

beneficial ownership interest in the Series Bonds under or through DTC or any Participant, or any other person or entity which is not shown on the bond register as being a registered owner of any Series Bonds, with respect to the accuracy of any records maintained by DTC or any Participant, with respect to the payment by DTC or any Participant of any amount with respect to the principal of, premium, if any, and interest on the Series Bonds, with respect to any notice which is permitted or required to be given to owners of Series Bonds under the Bond Resolution or this Series Resolution, with respect to the selection by DTC or any Participant of any person or entity to receive payment in the event of a partial redemption of the Series Bonds, or with respect to any consent given or other action taken by DTC as registered owner of the Series Bonds. So long as any Series Bond is registered in the name of Cede & Co., as nominee of DTC, the Trustee shall pay all principal of, premium, if any, and interest on such Series Bond, and shall give all notices with respect to such Series Bond, only to Cede & Co. in accordance with DTC's Operational Arrangements, and all such payments shall be valid and effective to fully satisfy and discharge the Agency's obligations with respect to the principal of, premium, if any, and interest on the Series Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the Series Bonds will be transferable to such new nominee in accordance with subsection (4) hereof.

(iii) In the event the Agency determines to discontinue the book-entry-only system through DTC with respect to the Series Bonds, the Agency may notify DTC and the Trustee, whereupon DTC shall notify the Participants of the availability through DTC of Series Bonds in the form of certificates. In such event, the Series Bonds will be transferable in accordance with subsection (iv) hereof. DTC may determine to discontinue providing its services with respect to the Series Bonds at any time by giving notice to the Agency and the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Series Bonds will be transferable in accordance with subsection (iv) hereof.

(iv) In the event that any transfer or exchange of Series Bonds is permitted under subsection (ii) or (iii) hereof, such transfer or exchange shall be accomplished upon receipt by the Trustee of the Series Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee in accordance with the provisions of the Bond Resolution and this Series Resolution. In the event Series Bonds in the form of certificates are issued to registered owners other than Cede & Co., its successor as nominee for DTC as registered owner of all the Series Bonds, or another securities depository as registered owner of all the Series Bonds, the provisions of the Bond Resolution and this Series Resolution shall also apply to all matters relating thereto, including, without limitation, the printing of such Series Bonds in the form of bond certificates and the method of payment of principal of, redemption premium, if any, and interest on such Series Bonds.

(c) *Opinion and Officer's Certification.* The Trustee has been furnished a copy of the Bond Resolution. Before delivery of the Series Bonds, the Agency shall furnish to the Trustee a certified copy of this Series Resolution, together with an Opinion of Counsel to the Agency and an Officer's Certificate executed by an Authorized Officer, in form and substance as required in Section 203 of the Bond Resolution and Sections 2(e), 4(a), 4(b) and 6 of this Series Resolution, and shall obtain from the Trustee the certification required in Section 203(C) of the Bond Resolution.

Section 6. Application of Proceeds; Funds and Accounts. Proceeds of the Series Bonds, and funds of the Agency, if required, shall be deposited to accounts in the Bond Fund relating to such Series Bonds, and to the Cost of Issuance Account and Project Account relating to such Series Bonds, or used to reimburse the Agency for funds it advances pursuant to Section 11, all as set forth in the Officer's Certificate delivered by an Authorized Officer pursuant to Section 5(c) of this Series Resolution.

Section 7. General Tax Covenant. The Agency will not take, or permit or cause to be taken, any action that would adversely affect the exclusion from federal gross income of the interest on any Series Bonds, nor otherwise omit to take or cause to be taken any action necessary to maintain such exclusion from gross income and, if it should take or permit, or omit to take or cause to be taken, as appropriate, any such action, the Agency shall take all lawful actions necessary to rescind or correct such actions or omissions promptly upon having knowledge thereof.

Section 8. Specific Tax Covenants relating to the Development. In fulfillment of the general covenant set forth in Section 7, the Agency represents as follows:

(a) The Development financed will be acquired and constructed for the purpose of providing multifamily residential rental property and will constitute a "qualified residential rental project," as such phrase is used in Sections 142(a)(7) and 142(d) of the Code.

(b) At least forty percent (40%) of the completed units in the Development shall be occupied (or treated as occupied) by Qualifying Tenants. "Qualifying Tenants" shall mean those persons and families (treating all occupants of a unit as a single family) who shall be determined from time to time by the Mortgagor to be eligible as "individuals whose income is sixty percent (60%) or less of area median gross income" within the meaning of Section 142(d)(2)(B) of the Code. The term of the foregoing restrictions shall commence on the date of issuance of the Series Bonds and shall end on the latest of the following: (i) the date which is 15 years after the date on which at least 50% of the units in the Development were first occupied; or (ii) the first day on which none of the Series Bonds are Outstanding; or (iii) the termination date of any Housing Assistance Payments Contract relating to the Development under Section 8 of the United States Housing Act of 1937, including the initial term and any renewal thereof.

(c) Each unit in the Development will be rented or available for rental to members of the general public on a continuous basis for the longer of (i) the period

during which any of the Series Bonds remain Outstanding or (ii) the term of the restrictions set forth in subsection (a) of this Section 8.

(d) At no time will either the Mortgagor or any related party be permitted to occupy a unit in the Development other than units occupied or to be occupied by agents, employees or representatives of the Mortgagor and reasonably required for the proper maintenance or management of the Development. In the event a unit within the Development is occupied by the Mortgagor, the Development will include no fewer than four units not occupied by the Mortgagor.

(e) The Development consists of a single “development” and, for this purpose, proximate buildings or structures are part of the same development only if owned for federal income tax purposes by the same person or entity and if the buildings are financed pursuant to a common plan; buildings or structures are proximate if they are all located on a single parcel of land or several parcels of land which are contiguous except for the interposition of a road, street, stream or similar property.

(f) None of the units in the Development will at any time be utilized on a transient basis, or used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, hospital, sanitarium or rest home.

(g) The Mortgagor shall not restrict Qualifying Tenants (as defined in the Loan Documents) from the enjoyment of unrestricted access to all common facilities and common areas of the Development.

(h) The Mortgagor shall not discriminate on the basis of race, creed, color, sex, or national origin in the lease, use or occupancy of the Development or in connection with the employment or application for employment of persons for the operation and management of the Development.

(i) No portion of the Development is presently used for purposes other than residential rental purposes and the Agency will not permit any other use unless it first obtains an opinion of bond counsel that such use will not impair the exclusion from federal gross income for interest payable on the Series Bonds.

Section 9. Additional Federal Tax Covenants Relating to the Development Financed and the Series Bonds. In furtherance of the general tax covenant made in Section 7 above, the Agency further represents as follows:

(a) All proceeds of the Series Bonds lent to the Mortgagor will be used to finance costs properly chargeable to the capital account of the Development within the meaning of Section 142(d) and functionally related and subordinate property thereto.

(b) No portion of the proceeds of the Series Bonds lent to the Mortgagor will be used to provide any airplane, skybox, or other private luxury box, health club facility, facility primarily used for gambling or liquor store.

(c) No portion of the proceeds of the Series Bonds lent to the Mortgagor will be used to acquire (i) property to be leased to the government of the United States of America or to any department, agency or instrumentality of the government of the United States of America, (ii) any property not part of the Development, or (iii) any private or commercial golf course, country club, massage parlor, tennis club, skating facility (including roller skating, skateboard and ice-skating), racquet sports facility (including any handball or racquetball court), hot tub facility, suntan facility or racetrack.

(d) No portion of the proceeds of the Series Bonds lent to the Mortgagor shall be used for the acquisition of land (or an interest therein) to be used for farming purposes, and less than twenty-five percent (25%) of the proceeds of the Series Bonds lent to the Mortgagor shall be used for the acquisition of land to be used for purposes other than farming purposes.

(e) [Reserved].

(f) The average reasonably expected economic life of the Development within the meaning of Section 147(b) of the Code is not less than 25 years.

(g) In order to qualify the Mortgage Note and Mortgage received from the Mortgagor as “program investments” within the meaning of Section 1.148-1(b) of the Treasury Regulations, the Agency will not permit the Mortgagor (or any “related person” thereto within the meaning of Section 147(a) of the Code) to take any action the effect of which would be to disqualify the Mortgage Note and Mortgage as part of a “program” under said Section 1.148-1(b), including, but not limited to, entering into any arrangement, formal or informal, with the Mortgagor or any related party to purchase bonds or notes of the Agency in an amount related to the amount of the Mortgage Note and Mortgage.

(h) In accordance with the requirements of Section 147(f) of the Code, the Agency has held a public hearing on the issuance of the Series Bonds after published notice as required by the Regulations and will obtain the approval of the Governor of the State for the issuance of the Series Bonds.

(i) Not more than 2% of the proceeds of the Series Bonds will be applied to the payment of Costs of Issuance, and all Costs of Issuance in excess of that amount, if any, will be paid by the Agency from funds other than proceeds of the Series Bonds.

(j) No obligations the interest on which is excludable from gross income for federal income tax purposes have been or will be issued which were sold at substantially the same time as the Issue, sold pursuant to the same plan of financing as the Issue and which are reasonably expected to be paid from substantially the same source of funds as the Issue.

(k) The Series Bonds will not be hedge bonds since the Agency reasonably expects to use at least 85% of the spendable proceeds of the Issue to make or purchase Mortgage Loan within three years after the date of issue of the Issue and not more than

50% of the proceeds of the Issue will be invested in nonpurpose investments having a substantially guaranteed yield for four years or more.

(l) The Series Bonds shall be counted against the unused volume cap of the Agency under the provisions of Section 146 of the Code and applicable state law (i) carried forward from calendar year 2019, (ii) for calendar year 2020 or (iii) a combination of (i) and (ii). The Agency has unused volume cap in excess of the amount of the Series Bonds and shall take all necessary action to allocate the required portion of its unused volume cap to the Series Bonds.

(m) None of the proceeds of the Series Bonds will be used by the Agency to reimburse itself or a Mortgagor for any expenditure with respect to the Development which the Agency or the Mortgagor paid or will have paid more than 60 days prior to the issuance of the Series Bonds unless, with respect to such prior expenditures, the Agency shall have made a declaration of official intent which complies with the provisions of Section 1.150-2 of the Regulations; provided that this certification shall not apply (i) with respect to certain de minimis expenditures, if any, with respect to the Development meeting the requirements of Section 1.150-2(f)(1) of the Regulations, or (ii) with respect to “preliminary expenditures” for the Development as defined in Section 1.150-2(f)(2) of the Regulations, including engineering or architectural expenses and similar preparatory expenses, which in the aggregate do not exceed 20% of the “issue price” of the Series Bonds.

Section 10. Arbitrage. The Agency covenants that it will not use the proceeds of the Series Bonds in such a manner as to cause the Series Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and applicable Treasury Regulations. The Agency will take all actions as may be prescribed in the future by regulations or rulings of the Internal Revenue Service to assure that the Series Bonds will meet the requirements of Section 148 of the Code relating to arbitrage, to-wit:

(a) The effective rate of interest on the Mortgage Loan purchased in whole or in part from the proceeds of the Series Bonds may not exceed the yield on the Issue, computed in accordance with Section 148 of the Code, by more than one and one-half percentage points.

(b) The Agency acknowledges that the Series Bonds are subject to the rebate requirements of Section 148(f) of the Code and applicable Regulations. The Agency agrees that it will retain such records, make such determinations, file such reports and documents and pay such amounts at such times as required under Section 148(f) of the Code and applicable Regulations to preserve the exclusion of interest on the Series Bonds from gross income for federal income tax purposes.

Section 11. Advance of Agency Funds. If the Mortgage Loan must be made before proceeds of the Series Bonds are available therefor, Agency funds legally available therefor shall be advanced by the Agency to fund the Mortgage Loan in anticipation of the issuance of the Series Bonds, and proceeds of the Series Bonds shall be used, to the extent required, to reimburse the Agency funds or accounts from which such advance was made.

Section 12. Discretion of Authorized Officer. Notwithstanding anything contained in the foregoing sections of this Series Resolution, if an Authorized Officer, upon consultation with the Chair and upon the advice of bond counsel or counsel to the Agency, determines that it is not in the best interests of the Agency to issue and sell the Series Bonds or any portion thereof (subject to any applicable provisions of any bond purchase agreement theretofore executed or the terms and conditions of the public sale of the Series Bonds following the award thereof), then such Series Bonds shall not be issued or sold in accordance with this Series Resolution.

[Remainder of page intentionally left blank]

Adopted by the Minnesota Housing Finance
Agency this 27th day of August, 2020.

By: _____
Chairman

Attest: _____
Commissioner

[Signature page to Resolution No. MHFA 20-038]

EXHIBIT A**DESCRIPTION OF MORTGAGOR AND DEVELOPMENT**

<u>Mortgagor</u>	<u>Name</u>	<u>Location</u>	<u>Number of Units</u>
CB LSM II Limited Partnership	Le Sueur Meadows II	Le Sueur, MN	39

EXHIBIT B
FORM OF SERIES BONDS

No. _____ \$ _____

UNITED STATES OF AMERICA - STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

RENTAL HOUSING BOND

[2020] SERIES ____

Interest Rate

Maturity

Date of Original Issue

CUSIP

The Minnesota Housing Finance Agency, a public body corporate and politic organized and existing under the provisions of Minnesota Statutes, Chapter 462A, as amended, for value received promises to pay to

CEDE & CO.

or registered assigns, the principal sum of _____ DOLLARS

on the maturity date specified above, with interest thereon from the date hereof at the annual rate specified above (computed on the basis of a 360-day year composed of twelve 30-day months), payable on February 1 and August 1 in each year, commencing _____, until said principal amount is paid, subject to the provisions referred to herein with respect to the redemption of principal before maturity. The interest hereon and, upon presentation and surrender hereof, the principal and any redemption premium with respect to this Series Bond are payable in lawful money of the United States of America by check or draft, or other agreed means of payment, to the order of the registered owner hereof as shown on the registry books of the Trustee as of the Record Date by Wells Fargo Bank, National Association, in Minneapolis, Minnesota, Trustee under the Bond Resolution referred to below, or its successor. For the prompt and full payment thereof when due the full faith and credit of the Agency are irrevocably pledged. This Series Bond is a general obligation of the Agency, payable out of any of its moneys, assets or revenues, subject to the provisions of resolutions or indentures now or hereafter pledging particular moneys, assets or revenues to particular notes or bonds, and state laws heretofore or hereafter enacted appropriating particular funds for a specified purpose. The Agency has no taxing power. The State of Minnesota is not liable hereon, and this Series Bond is not a debt of the State.

This Series Bond is one of a duly authorized series of Rental Housing Bonds, [2020] Series __, issued in the original aggregate principal amount of \$_____ (the "Series Bonds"), to provide funds needed to finance the acquisition and construction of a multifamily

housing development in La Sueur, Minnesota (the “Development”). The Series Bonds are issued under and pursuant to the Agency’s Bond Resolution, No. MHFA 88-12, dated February 25, 1988, as amended and supplemented, and its Series Resolution, No. MHFA 20-038, adopted August 27, 2020, to which resolutions, including all supplemental resolutions adopted pursuant to the provisions thereof, reference is made for a description of the revenues, money, securities, funds and accounts pledged to the Trustee for the security of the Holders of the Bonds, including the Series Bonds, the respective rights thereunder of the Agency, the Trustee and other fiduciaries and the Holders of the Bonds, including the Series Bonds, and the terms upon which the Bonds, including the Series Bonds, are issued, delivered and secured.

The Series Bonds are issuable only in fully registered form and comprise current interest bonds of a single stated maturity. The Series Bonds are issued in denominations of \$5,000 principal amount or integral multiples thereof not exceeding the principal amount maturing in any year.

The Series Bonds are subject to special redemption at the option of the Agency, in whole or in part, on any date, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption, without premium, (i) from unexpended proceeds of the Series Bonds not used to finance the Development, together with allocable amounts on deposit in the Debt Service Reserve Fund, if any; or (ii) from Recovery Payments (as defined in Section 103 of the Bond Resolution) relating to the Development allocable to the Series Bonds. If said Recovery Payments allocable to the Series Bonds are not sufficient to redeem all Outstanding Series Bonds, the Agency may apply other funds to the special redemption of the Series Bonds in addition to the allocable amount of Recovery Payments.

The Series Bonds are subject to redemption at the option of the Agency, in whole or in part, on any date on or after _____, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium.

Upon any redemption of the Series Bonds or portions thereof, the Trustee will select them in a manner specified by the Agency. Upon partial redemption of the Series Bonds, a new Series Bond will be delivered to the Holder without charge, representing the remaining principal amount outstanding.

Notice of any redemption of Series Bonds will be mailed to the registered Holders of the Series Bonds (or portions thereof) to be redeemed, at their last addresses on the registry books as of the Record Date, not less than thirty (30) days before the redemption date, stating (i) the principal amount to be redeemed, (ii) the maturities of the Series Bonds to be redeemed, (iii) that on the redemption date the redemption price of the Series Bonds or portions thereof to be redeemed will be payable, with accrued interest, and (iv) that thereafter interest will cease to accrue or be payable thereon. No failure to give such notice or defect in the notice shall affect the validity of the proceedings for the redemption of Series Bonds not affected by such failure or defect. Notice having been so mailed, the Series Bonds or portions of Series Bonds therein specified shall be due and payable at the specified redemption date and price, with accrued interest, and funds for such payment being held by or on behalf of the Trustee so as to be available therefor, interest thereon shall cease to accrue, and such Series Bonds or portions thereof shall no longer be considered Outstanding under the Bond Resolution.

The Agency has issued Bonds and the Bond Resolution also authorizes additional Series of Bonds to be issued and secured by the pledge made and security interest granted therein, all of which, regardless of the times of issue or maturity, will be of equal rank with Outstanding Bonds without preference, priority or distinction of any Bond of any series over any other except as expressly provided or permitted in the Bond Resolution, subject to conditions specified in the Bond Resolution, including conditions (a) that after each such issuance there will be scheduled payments of principal and interest on Mortgage Loans then held by the Agency or to be made or purchased by the Agency from the proceeds of such Series of Bonds (or from the proceeds of notes paid or to be paid from the proceeds of the Bonds) which, with any other legally enforceable payments with respect to such Mortgage Loans, and with interest or other income estimated by the Agency to be derived from the investment or deposit of money available therefor in all funds and accounts created by the Bond Resolution, will be sufficient to pay the principal installments of and interest on the Bonds then Outstanding and the additional Series of Bonds; and (b) that the balance in the Debt Service Reserve Fund immediately prior to the issuance of such Bonds is not less than the Debt Service Reserve Requirement computed with reference to the Outstanding Bonds (except Outstanding Bonds which are to be refunded by such additional Bonds) and shall be increased, if necessary, by the deposit of Bond proceeds or other funds to the Debt Service Reserve Requirement effective after the issuance of the Bonds, as computed by the Trustee.

The Bond Resolution permits, with certain exceptions, the modification or amendment thereof and of the rights and obligations of the Agency and of the Holders of the Bonds thereunder, by a supplemental bond resolution adopted with the written consent, filed with the Trustee, of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time the consent is given. Any such resolution shall be binding upon the Agency and all fiduciaries and Holders of Bonds at the expiration of thirty days after filing with the Trustee of proof of mailing of notice that the required consent has been given. Supplemental resolutions may also be adopted, effective immediately, for the purpose of adding restrictions on or covenants by or surrendering privileges of the Agency, authorizing additional Bonds, or making provisions affecting only Bonds not yet issued, and may also be adopted, effective upon consent of the Trustee, for the purpose of curing or correcting an ambiguity, omission, defect or inconsistency, or inserting provisions not inconsistent with the Bond Resolution, clarifying matters or questions arising under it. Every Holder hereof is deemed by purchase and retention of this Series Bond to consent to be bound by every supplemental resolution and every modification and amendment adopted in accordance with the provisions of the Bond Resolution, whether or not noted or endorsed hereon or incorporated herein.

No Holder of any Bond may institute any suit, action or proceeding in equity or at law for the enforcement of any provision of the Bond Resolution or for the execution of any trust thereunder or for any other remedy thereunder except upon the conditions therein provided, but nothing therein shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on each Bond, or the obligation of the Agency to pay the same at the time and place expressed in the Bond.

IT IS CERTIFIED AND RECITED that all acts, conditions and things required by the Constitution and laws of the State of Minnesota to exist, to happen and to be performed precedent to and in the issuance of this Series Bond in order to make it a valid and binding general obligation of the Agency in accordance with its terms do exist, have happened and have been performed in due form, time and manner as so required; and that the issuance of this Series Bond does not cause the indebtedness of the Agency to exceed any constitutional or statutory limitation.

As provided in the Bond Resolution and subject to certain limitations set forth therein, this Series Bond is transferable upon the books of the Minnesota Housing Finance Agency at the designated corporate trust office of Wells Fargo Bank, National Association, in Minneapolis, Minnesota, the Trustee thereunder, by the registered owner hereof in person or by the owner's attorney duly authorized in writing, upon surrender hereof together with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or the owner's duly authorized attorney. Upon such transfer the Agency will issue in the name of the transferee a new Series Bond or Bonds of the same aggregate principal amount, Series, interest rate and maturity as the surrendered Series Bond, subject to reimbursement for any tax, fee or governmental charge required to be paid by the Agency or the Trustee with respect to such transfer.

The Agency and the Trustee under the Bond Resolution may deem and treat the person in whose name this Series Bond is registered upon the books of the Agency as the absolute owner hereof, whether this Series Bond is overdue or not, for the purpose of receiving payment of or on account of the principal, redemption price or interest and for all other purposes, and all such payments so made to the registered owner or upon the owner's order shall be valid and effectual to satisfy and discharge the liability upon this Series Bond to the extent of the sum or sums so paid, and neither the Agency nor the Trustee shall be affected by any notice to the contrary.

Notwithstanding any other provisions of this Series Bond, so long as this Series Bond is registered in the name of Cede & Co., as nominee of The Depository Trust Company, or in the name of any other nominee of The Depository Trust Company or other securities depository, the Trustee shall pay all principal of, premium, if any, and interest on this Series Bond, and shall give all notices with respect to this Series Bond, only to Cede & Co. or other nominee in accordance with the operational arrangements of The Depository Trust Company or other securities depository as agreed to by the Agency.

[Remainder of page intentionally left blank]

Unless the Trustee's Certificate hereon has been manually executed by or on behalf of the Trustee, this Series Bond shall not be entitled to any benefit under the Bond and Series Resolutions or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Agency has caused this Series Bond to be executed by the facsimile signatures of its Chairman and Commissioner, the Agency having no corporate seal, and has caused this Series Bond to be dated as of the date set forth below.

Date of Authentication: _____

Trustee's Certificate

MINNESOTA HOUSING FINANCE
AGENCY

This is one of the Series Bonds delivered pursuant to the Bond and Series Resolution mentioned within.

By: _____
Chairman (Facsimile Signature)

WELLS FARGO BANK, NATIONAL
ASSOCIATION, Minneapolis, Minnesota, as
trustee

By: _____
Authorized Representative

Attest: _____
Commissioner (Facsimile Signature)

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto

(please print or type name and address of transferee)

the within Bond and all rights thereunder and does hereby irrevocably constitute and appoint _____ attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

NOTICE: The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever

Signature Guaranteed: _____

Signature(s) must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Trustee, which requirements include membership or participation in STAMP or such other "signature guaranty program" as may be determined by the Trustee in addition to or in substitution for STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

Please insert social security or other identifying number of assignee:

This page intentionally left blank.

Item: 4th Quarter FY 2020 Financial Reporting Package

Staff Contact(s):

Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

Debbi Larson, 651.296.8183, debbi.larson@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

Staff will review 4th quarter financial results.

Fiscal Impact:

None.

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):

- Noteworthy Items
- Financial Dashboard
- Selected Financial Statements—3rd quarter FY 2020

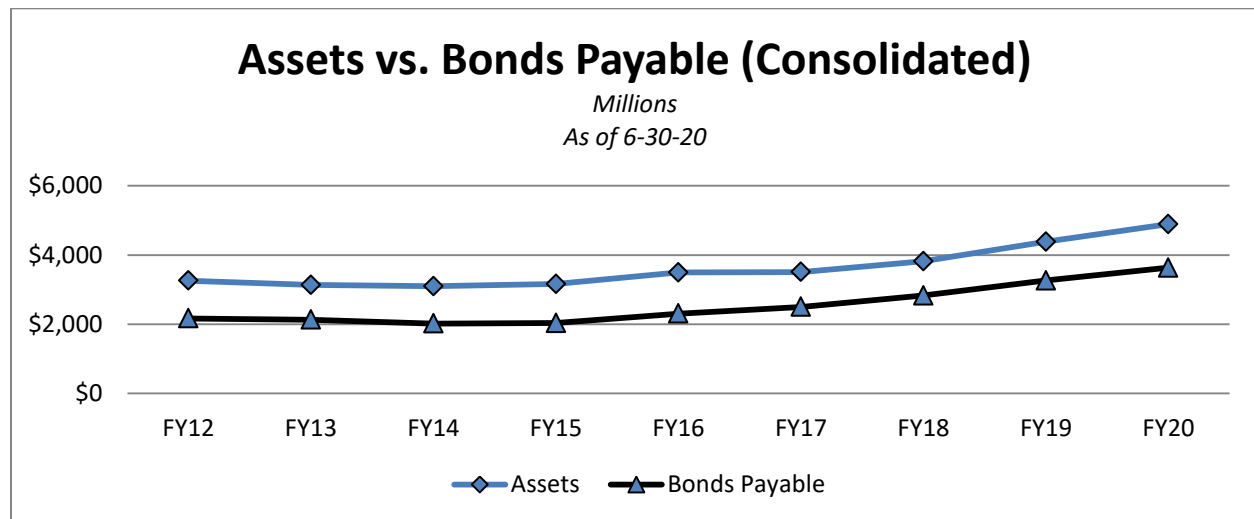
**Minnesota Housing Finance Agency
FY 2020 4th Quarter Financial Results
Noteworthy Items**

Consolidated Balance Sheet – 6/30/20 vs. 6/30/19

Assets continue to grow and are up \$506.5 million over one year ago, surpassing \$4.8 billion. We continue to recognize substantial growth in the Mortgage-Backed Securities (MBS) portfolio.

Overall, Agency loan assets remain relatively flat, as new production from both Multi-family and single family largely offsets the run-off of outstanding loans, particularly as Single family homeownership loans are securitized into MBS, rather than carried as whole loans.

The bonds payable liability increased by \$401.2 million over one year ago, primarily due to continued bond financing of our strong homeownership production.



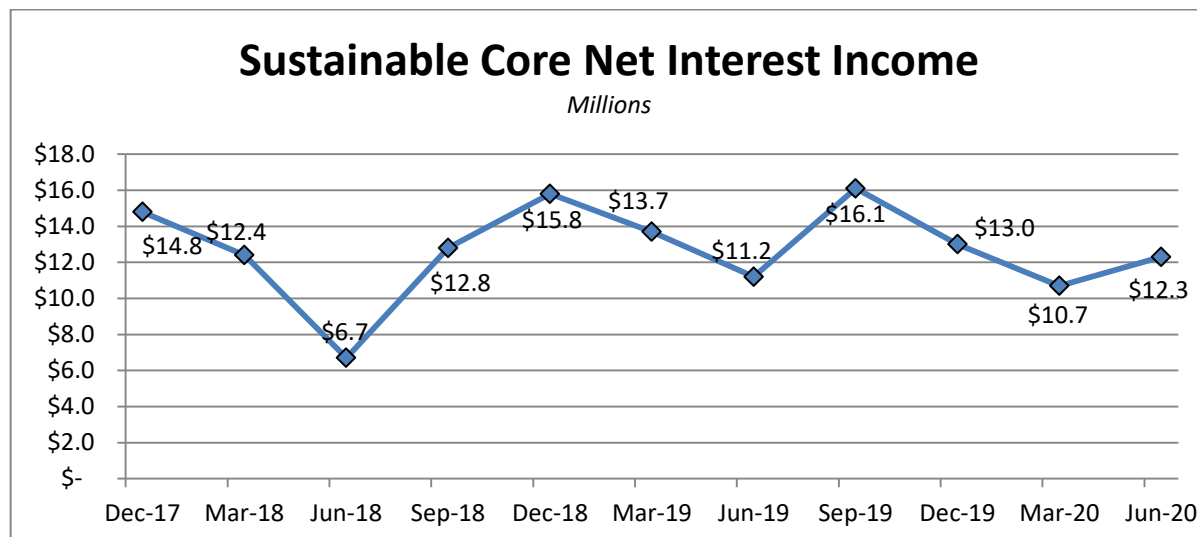
Operating Results Sustainable Core 4th Quarter FY 20 vs. 4th Quarter FY 19

In the Sustainable Core, In Q4 FY20 Net Interest Income was \$12.0 million, compared to Q4 FY19 which was \$11.2 million, an increase of 7.1%.

Total interest revenue for FY20 4th quarter was \$36.1 million, comparably similar to the 4th quarter FY19 and down \$1.8 million from 3rd quarter FY20.

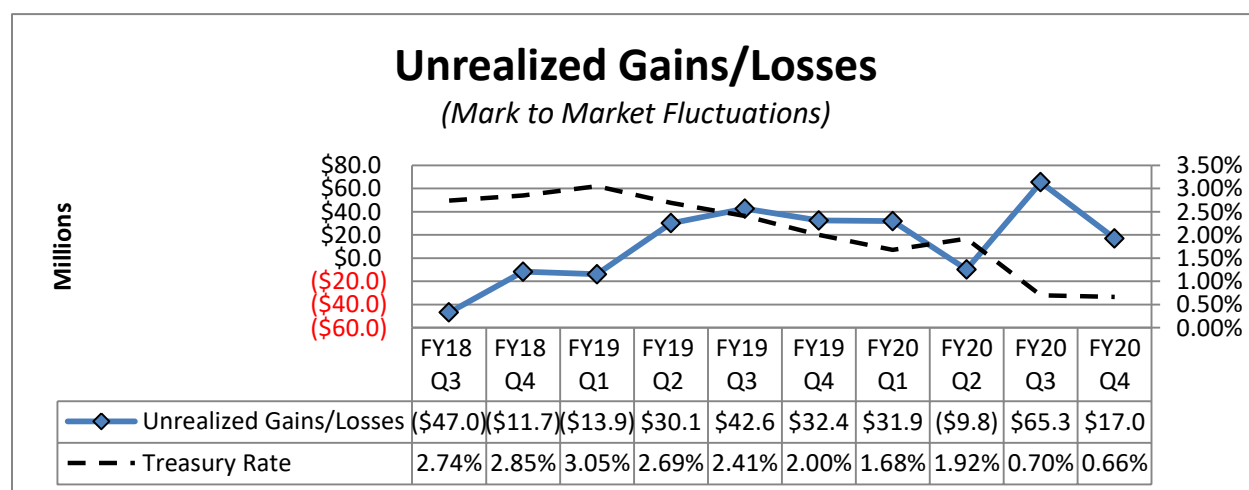
Interest expense for the 4th quarter was \$24.1 million, down from \$27.2 million from prior quarter, and down from 4th quarter FY19 which was \$25.4 million. The majority of our interest expense in any quarter is related to our outstanding debt, with a small component related to

any short-term advances draw from the facility with the Federal Home Loan Bank of Des Moines.



Sustainable Core operating expenses were \$11.1 million for the quarter, up by \$1.5 million over prior quarter. Year-over-year, for the 12 month period, operating expenses are up by roughly \$17.0 million. The main reason was the result of an actuarial entry for pension in FY19 that reduced our expense by \$11.6 million, and an entry in FY20 that increased our expense by \$1.0 million. The remaining variance is attributed to normal increase in salaries and benefits.

Also booked a \$17.0 million unrealized gain on the MBS portfolio in the quarter, following a \$65.3 million unrealized gain in the third quarter FY20. Quarterly fluctuations in this line will continue as the mark-to-market impact of our fixed rate MBS in various interest rate environments is recognized.



BALANCE SHEET*
Quarterly Financial Dashboard - Selected Reporting
As of June 30, 2020 - (\$ million)

	Quarter End	Prior Quarter End	Change from Prior Quarter	Year Ago **	Change From Year Ago
CONSOLIDATED					
Total Assets	4,888.8	4,823.6	65.2	4,382.3	506.5
<i>Program Securities</i>	3,184.3	3,131.9	52.4	2,687.7	496.6
<i>Loans, net</i>	933.7	950.7	(17.0)	955.4	(21.7)
<i>Other investments and cash</i>	747.3	717.1	30.2	(190.4)	937.7
Total Liabilities	3,849.5	3,790.2	59.3	3,448.3	401.2
Net Position					
<i>restricted by Resolution</i>	540.0	529.5	10.5	426.5	113.5
<i>restricted by Covenant</i>	494.0	489.3	4.7	487.7	6.3
<i>restricted by Law</i>	168.1	174.1	(6.0)	151.8	16.3
<i>unrestricted - State Appr-Backed Debt</i>	(179.8)	(179.8)	0.0	(160.8)	(19.0)
<i>other</i>	4.3	4.5	(0.2)	6.1	(1.8)
Total Net Position	1,026.6	1,017.6	9.0	911.3	115.3
CONSOLIDATED EXCLUDING APPROPRIATED					
Total Assets	4,689.3	4,616.6	72.7	4,204.5	484.8
Net Position	1,038.3	1,023.3	15.0	920.3	118.0
SUSTAINABLE CORE					
Total Assets	4,563.8	4,493.6	70.2	4,091.0	472.8
<i>Program Securities</i>	3,184.3	3,131.9	52.4	2,687.7	496.6
<i>Loans, net</i>	796.6	816.5	(19.9)	832.5	(35.9)
<i>Other investments & cash</i>	559.6	521.7	37.9	545.7	13.9
Total Liabilities	3,637.7	3,577.5	60.2	3,261.0	376.7
<i>Bonds payable, net</i>	3,453.8	3,401.0	52.8	3,104.0	349.8
Net Position	913.3	900.3	13.0	807.3	106.0

* Assets and liabilities do not include deferred inflows/outflows

** As restated for State appropriated debt liability

STATEMENT OF OPERATIONS

Quarterly Financial Dashboard - Selected Reporting
As of June 30, 2020 - (\$ million)

	This Quarter	Prior Quarter	Change from Prior Quarter	FYTD	Last Year FYTD	Change
CONSOLIDATED						
Revenues	121.5	169.0	(47.5)	583.6	534.3	49.3
Expenses	113.0	115.1	(2.1)	449.8	400.7	49.1
Net	8.5	53.9	(45.4)	133.8	133.6	0.2
SUSTAINABLE CORE						
Interest revenue	36.1	37.9	(1.8)	147.7	139.4	8.3
Other revenue	15.1	12.2	2.9	57.5	47.2	10.3
Unrealized gain (loss)	17.0	65.3	(48.3)	104.4	91.4	13.0
TOTAL REVENUE	68.2	115.4	(47.2)	309.6	278.0	31.6
Interest Expense	24.1	27.2	(3.1)	95.9	85.8	10.1
Operating Expenses(1)	11.1	9.6	1.5	38.9	21.9	17.0
Other Expenses	17.5	12.3	5.2	53.3	36.4	16.9
TOTAL EXPENSE	52.7	49.1	3.6	188.1	144.1	44.0
Revenue over Expense	15.5	66.3	(50.8)	121.5	133.9	(12.4)
Net Interest Income	12.0	10.7	1.3	51.8	53.6	(1.8)
<i>Annualized Net Interest Margin(2)</i>	<i>1.10%</i>	<i>0.96%</i>		<i>1.60%</i>	<i>1.87%</i>	

(1) Salaries, benefits and other general operating; includes YE Pension Adj

(2) Annualized Net Interest Income/Average assets for period

Minnesota Housing Finance Agency
Fund Financial Statements
Statement of Net Position (in thousands) - UNAUDITED
Proprietary Funds
As of June 30, 2020 (with comparative totals as of June 30, 2019)

Assets

Cash and cash equivalents	
Investments-program mortgage-backed securities	
Investment securities-other	
Loans receivable, net	
Interest receivable on loans and program mortgage-backed securities	
Interest receivable on investments	
Interest rate swap agreements	
FHAVA insurance claims, net	
Real estate owned, net	
Capital assets, net	
Other assets	

Total assets

Deferred Outflows of Resources

Deferred loss on refunding	
Deferred loss on interest rate swap agreements	
Deferred pension expense	
Total deferred outflows of resources	

Total assets and deferred outflows of resources

Liabilities

Bonds payable, net	
Interest payable	
Interest rate swap agreements	
Net pension liability	
Accounts payable and other liabilities	
Interfund payable (receivable)	
Funds held for others	
Total liabilities	

Deferred Inflows of Resources

Deferred gain on interest rate swap agreements	
Deferred revenue-service release fee	
Deferred pension credit	
Total deferred inflows of resources	

Total liabilities and deferred inflows of resources

Commitments and contingencies

Net Position

Restricted by bond resolution	
Restricted by covenant	
Restricted by law	
Unrestricted by State Appropriation-backed Debt	
Invested in capital assets	
Total net position	

Total liabilities, deferred inflows of resources, and net position

This information on the funds of the Agency for the twelve-month period ended June 30, 2020 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the twelve-month period ended June 30, 2020, subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2019 and for the fiscal year then ended.

See accompanying notes to financial statements.

Minnesota Housing Finance Agency
Fund Financial Statements - UNAUDITED

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

Proprietary Funds	Bond Funds						Appropriated Funds		Total for the Twelve Months Ended	
	Residential Housing Finance			Homeownership Finance Bonds			State Appropriated		the Twelve Months Ended	
	General Reserve	Rental Housing						Federal Appropriated	June 30, 2020	June 30, 2019
Revenues										
Interest earned on loans	\$ -	\$ 7,661	\$ 34,113	\$ -	\$ 600	\$ -	\$ 690	\$ -	43,064	\$ 47,030
Interest earned on investments-program mortgage-backed securities	-	-	35,731	58,533	-	-	-	-	94,264	79,699
Interest earned on investments-other	590	970	9,485	427	19	468	2,630	223	14,812	17,785
Net G/L on Sale of MBS Held for Sale/HOMES SM Certificates	-	-	8,770	-	-	-	-	-	8,770	4,642
Appropriations received	-	-	-	-	-	-	64,705	202,839	267,544	249,985
Administrative reimbursement	31,336	-	-	-	-	-	-	-	31,336	27,730
Fees earned and other income	12,971	147	2,748	1,580	-	-	1,007	-	18,453	15,868
Unrealized gains (losses) on investments	-	1,472	55,570	47,468	-	-	(166)	-	104,344	91,572
Total revenues	44,897	10,250	146,417	108,008	619	468	68,866	203,062	582,587	534,311
Expenses										
Interest	-	1,434	43,583	50,022	401	468	-	-	95,908	85,837
Financing, net	-	5	14,223	8,666	-	-	-	-	22,894	11,248
Loan administration and trustee fees	-	80	2,592	603	4	-	109	-	3,388	3,359
Administrative reimbursement	-	1,181	16,634	10,213	93	-	2,603	-	30,724	26,912
Salaries and benefits	30,283	-	-	-	-	-	-	-	30,283	15,117
Other general operating	6,900	4	4,000	39	-	-	2,272	-	13,215	11,854
Appropriations disbursed	-	-	-	-	-	-	35,961	202,628	238,589	224,145
Reduction in carrying value of certain low interest rate deferred loans	-	-	-	-	-	-	11,905	-	12,354	21,380
Provision for loan losses	-	(195)	1,429	-	(1)	-	188	-	1,421	883
Total expenses	37,183	2,509	82,910	69,543	497	468	53,038	202,628	448,776	400,735
Revenues over (under) expenses	7,714	7,741	63,507	38,465	122	-	15,828	434	133,811	133,576
Other changes										
Non-operating transfer of assets between funds & Adj.	(9,876)	59	(8,832)	19,169	-	-	(19,010)	-	(18,490)	(20,280)
Change in net position	(2,162)	7,800	54,675	57,634	122	-	(3,182)	434	115,321	113,296
Net Position										
Total net position, beginning of period	14,469	136,981	682,865	84,113	1,845	-	(23,055)	14,043	911,261	797,965
Total net position, end of period	\$ 12,307	\$ 144,781	\$737,540	\$ 141,747	\$ 1,967	\$ -	\$ (26,237)	\$ 14,477	\$ 1,026,582	\$ 911,261

This information on the funds of the Agency for the twelve-month period ended June 30, 2020 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the twelve-month period ended June 30, 2020, subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2019 and for the fiscal year then ended.

Total net position, beginning of period adjusted to GASB 68.

See accompanying notes to financial statements.

Minnesota Housing Finance Agency
Fund Financial Statements
Statement of Cash Flows (in thousands) - UNAUDITED
Proprietary Funds

Twelve months ended June 30, 2020 (with comparative totals for the twelve months ended June 30, 2019)

Reconciliation of revenue over (under) expenses
to net cash provided (used) by operating activities:

Revenues over (under) expenses											\$	133,571
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:											\$	133,811
Amortization of premiums (discounts) and fees on program mortgage-backed securities												
Amortization of premium (discounts) and fees on sale of HOMES SM Certificates											7,887	3,841
Amortization of proportionate share-Pension											24	65
Depreciation											3,739	3,067
Loss on disposal of fixed assets											-	-
Gain (loss) on sale of MBS held for sale and HOMES SM Certificates											-	-
Realized losses (gains) on sale of securities, net											(8,770)	(4,642)
Unrealized losses (gains) on securities, net											(1,472)	(94)
Salaries and Benefits-Pensions											(47,468)	(91,572)
Provision for loan losses											620	(11,542)
Reduction in carrying value of certain low interest rate and/or deferred loans											(1)	883
Capitalized interest on loans and real estate owned											1,421	-
Interest earned on investments											12,354	21,380
Interest expense on bonds and notes											(519)	(504)
Financing expense on bonds											(19)	(17,691)
Decrease (increase) in appropriated disbursed/(received)											401	85,837
Changes in assets and liabilities:											468	11,262
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds											-	-
Decrease (increase) in interest receivable on loans											202	-
Increase (decrease) in arbitrage rebate liability											-	-
Increase (decrease) in deferred revenue											-	-
Increase (decrease) in accounts payable											(7,567)	(430,975)
Increase (decrease) in interfund payable, affecting operating activities only											8	(1,593)
Increase (decrease) in funds held for others											-	-
Other											3,343	2,652
Total											(105)	1,349
											(6,378)	10,742
											(2,763)	(4,622)
Net cash provided (used) by operating activities											(369,768)	(422,157)
											\$ (235,957)	\$ (288,581)

This information on the funds of the Agency for the twelve-month period ended June 30, 2020 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the twelve-month period ended June 30, 2020, subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2019 and for the fiscal year then ended.

Minnesota Housing Finance Agency
Fund Financial Statements
Statement of Cash Flows (in thousands) - UNAUDITED
Proprietary Funds
Twelve months ended June 30, 2020 (with comparative totals for the twelve months ended June 30, 2019)

Cash flows from operating activities:										
Principal repayments on loans and program mortgage-backed securities	\$ -	\$ 19,871	\$ 288,771	\$ 264,940	\$ 202	\$ 16,617	\$ -	\$ 590,401	\$ -	\$ 411,245
Investment in loans/loan modifications and program mortgage-backed securities	-	(20,455)	(676,350)	(261,963)	-	(24,184)	-	(982,952)	-	(842,220)
Interest received on loans and program mortgage-backed securities	-	7,532	71,531	63,609	600	698	-	143,970	-	128,473
Net G/L on Sale of MBS Held for Sale/HOMES SM Certificates	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-
Fees and other income received	12,373	147	11,317	-	-	1,007	-	24,844	-	22,931
Salaries, benefits and other operating	(32,144)	(82)	(10,859)	(608)	(4)	(2,772)	-	(46,469)	-	(43,995)
Appropriations received	-	-	-	-	-	64,909	203,024	267,933	-	250,956
Appropriations disbursed	-	-	-	-	-	(35,364)	(203,108)	(238,472)	-	(225,167)
Administrative reimbursement from funds	31,602	(1,181)	(16,634)	(10,213)	(93)	(2,885)	-	596	-	882
Deposits into funds held for others	35,956	-	-	-	-	44,542	-	80,498	-	70,434
Disbursements made from funds held for others	(36,086)	-	(505)	-	-	(37,529)	-	(74,120)	-	(59,692)
Interfund transfers and other assets	(2,134)	1	34	-	-	(87)	-	(2,186)	-	(2,428)
Net cash provided (used) by operating activities	9,567	5,833	(332,695)	55,765	705	24,952	(84)	(235,957)	-	(288,581)
Cash flows from noncapital financing activities:										
Proceeds from sale of bonds and notes	-	20,095	2,751,417	298,852	-	-	-	3,070,364	-	2,322,300
Principal repayment on bonds and notes	-	(16,315)	(2,402,622)	(291,897)	(240)	-	-	(2,714,322)	-	(1,901,551)
Interest paid on bonds and notes	-	(1,411)	(46,464)	(51,270)	(402)	-	-	(100,023)	-	(87,166)
Financing costs paid related to bonds issued	-	(5)	(6,475)	(2,599)	-	-	-	(9,079)	-	(7,456)
Interest paid/received between funds	63	-	(63)	-	-	-	-	-	-	-
Principal paid/received between funds	-	-	-	-	-	-	-	-	-	-
Premium paid on redemption of bonds	-	-	-	-	-	-	-	-	-	-
Agency contribution to program funds	-	59	(9,762)	9,703	-	-	-	-	-	-
Transfer of cash between funds	(2,480)	-	2,480	-	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	(2,417)	2,423	288,511	(37,211)	(642)	-	-	246,940	-	326,127
Cash flows from investing activities:										
Investment in real estate owned	-	-	(603)	-	-	-	-	(603)	-	(872)
Interest received on investments	1,517	1,007	9,845	486	22	2,555	240	16,148	-	17,165
Net gain (loss) on Sale of MBS Held for Sale and HOMES SM Certificates	-	-	(4,925)	-	-	-	-	(4,925)	-	937
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	6,662	-	-	-	-	6,662	-	6,495
Proceeds from maturity, sale or transfer of investment securities	119,000	392	1,162,376	-	-	142,540	-	1,427,556	-	1,076,467
Purchase of investment securities	(74,645)	-	(1,190,293)	-	-	(74,670)	-	(1,339,608)	-	(1,100,186)
Purchase of loans between funds	-	(17,695)	21,813	-	-	(4,118)	-	-	-	-
Net cash provided (used) by investing activities	45,872	(16,296)	4,875	486	22	66,307	240	105,230	-	6
Net increase (decrease) in cash and cash equivalents	53,022	(8,040)	(39,309)	19,040	85	91,259	156	116,213	-	37,552
Cash and cash equivalents:										
Beginning of period	52,210	34,866	247,231	46,143	1,554	55,499	14,329	451,832	-	414,280
End of period	\$105,232	\$ 26,826	\$ 207,922	\$ 65,183	\$ 1,639	\$146,758	\$ 14,485	\$58,045	\$ -	\$ 451,832

This information on the funds of the Agency for the twelve-month period ended June 30, 2020 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the twelve-month period ended June 30, 2020 subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2019 and for the fiscal year then ended.

(Continued)

As of June 30, 2020 (with comparative totals for June 30, 2019)

Assets

Cash and cash equivalents	\$ 105,232	\$ 26,826	181,321	\$ 22,651	\$ 65,183	\$ 1,639	\$ 402,852	\$ 373,949	\$ 3,950	\$ 406,802	\$ 382,004
Investments-program mortgage-backed securities	-	-	1,460,096	-	1,724,194	-	3,184,290	2,687,661	-	3,184,290	2,687,661
Investment securities-other	-	22,997	41,807	77,622	-	-	156,815	171,838	22,463	179,278	194,075
Loans receivable, net	-	148,356	331,570	303,110	-	14,389	796,587	832,530	99,037	895,624	915,598
Interest receivable on loans and program mortgage-backed securities	-	609	5,829	1,283	5,229	-	13,000	12,304	35	13,035	12,342
Interest receivable on investments	57	66	265	216	1	35	640	1,148	33	673	1,202
Interest rate swap agreements	-	-	-	-	-	-	-	-	-	-	-
FHA/VA insurance claims, net	-	-	312	-	-	-	312	686	-	312	686
Real estate owned, net	-	-	753	543	-	-	1,296	1,965	-	1,965	1,965
Capital assets, net	4,280	-	-	-	-	-	4,280	6,082	-	4,280	6,082
Other assets	3,038	2	19	675	-	-	3,734	2,851	-	3,734	2,854
Total assets	112,607	198,856	2,021,972	406,100	1,794,607	15,240	4,563,806	4,091,014	125,518	4,689,324	4,204,469

Deferred Outflows of Resources

Deferred loss on refunding	-	-	15	-	-	-	15	62	-	15	62
Deferred loss on interest rate swap agreements	-	-	23,605	-	-	-	23,605	10,984	-	23,605	10,984
Deferred pension expense	14,211	-	-	-	-	-	14,211	26,658	-	14,211	26,658
Total deferred outflows of resources	14,211	-	23,620	-	-	-	37,831	37,704	-	37,831	37,704
Total assets and deferred outflows of resources	\$ 126,818	\$ 198,856	\$ 2,045,592	\$ 406,100	\$ 1,794,607	\$ 14,424	\$ 4,601,637	\$ 4,128,718	\$ 125,518	\$ 4,727,155	\$ 4,242,173

Liabilities

Bonds payable, net	\$ -	\$ 50,055	\$ 1,738,108	\$ -	\$ 1,639,009	\$ 13,392	\$ 3,453,804	\$ 3,104,008	-	\$ 3,453,804	\$ 3,104,008
Interest payable	-	600	23,172	4	5,360	35	29,204	27,086	-	29,204	27,086
Interest rate swap agreements	-	-	23,605	-	-	-	23,605	10,984	-	23,605	10,984
Net pension liability	10,412	-	-	-	-	-	10,412	10,441	-	10,412	10,441
Accounts payable and other liabilities	5,159	3,420	580	40,719	100	-	49,978	39,287	512	50,490	39,741
Interfund payable (receivable)	440	-	-	(1,022)	-	-	(582)	(935)	-	(582)	(936)
Funds held for others	68,766	-	-	1,495	-	997	71,258	70,102	-	71,258	70,102
Total liabilities	84,777	54,075	1,785,465	41,196	1,644,469	14,424	3,637,679	3,260,973	512	3,638,191	3,261,426

Deferred Inflows of Resources

Deferred gain on interest rate swap agreements	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue-service release fee	-	-	8,604	3,893	8,391	-	20,888	18,446	-	20,888	18,446
Deferred pension credit	29,734	-	-	-	-	-	29,734	42,028	-	29,734	42,028
Total deferred inflows of resources	29,734	-	8,604	3,893	8,391	-	50,622	60,474	-	50,622	60,474
Total liabilities and deferred inflows of resources	\$ 114,511	\$ 54,075	\$ 1,794,069	\$ 45,089	\$ 1,652,860	\$ 14,424	\$ 3,688,301	\$ 3,321,447	\$ 512	\$ 3,688,813	\$ 3,321,900

Commitments and contingencies

Net Position

Restricted by bond resolution	-	144,781	251,523	-	141,747	1,967	540,018	426,482	-	540,018	426,482
Restricted by covenant	8,027	-	-	361,011	-	-	369,038	374,707	125,006	494,044	487,709
Restricted by law	-	-	-	-	-	-	-	-	-	-	-
Unrestricted by State Appropriation-backed Debt	-	-	-	-	-	-	-	-	-	-	-
Invested in capital assets	4,280	-	-	-	-	-	4,280	6,082	-	4,280	6,082
Total net position	12,307	144,781	251,523	361,011	141,747	1,967	913,336	807,271	125,006	1,038,342	920,273
Total liabilities, deferred inflows, and net position	\$ 126,818	\$ 198,856	\$ 2,045,592	\$ 406,100	\$ 1,794,607	\$ 15,240	\$ 4,601,637	\$ 4,128,718	\$ 125,518	\$ 4,727,155	\$ 4,242,173

This information on the funds of the Agency for the twelve-month period ended June 30, 2020 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the twelve-month period ended June 30, 2020, subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2019 and for the fiscal year then ended.

Minnesota Housing Finance Agency

Supplementary Information (Unaudited)

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

General Reserve & Bond Funds

Twelve Months Ended June 30, 2020 (with comparative totals for the twelve months ended June 30, 2019)

General Reserve	Bond Funds				General Reserve & Bond Funds Excluding Pool 3		Residential Housing Finance Pool 3		General Reserve & Bond Funds Total for Twelve Months Ended	
	Rental Housing	Bonds	Pool 2	Homeownership Finance Bonds	Multifamily Housing Bonds	HOMES SM	General Reserve & Bond Funds Excluding Pool 3 Total for Twelve Months Ended	Residential Housing Finance Pool 3 Total for Twelve Months Ended	General Reserve & Bond Funds Total for Twelve Months Ended	General Reserve & Bond Funds Total for Twelve Months Ended

Revenues

Interest earned on loans	\$	-	7,661	\$	19,051	\$	14,728	\$	-	\$	-	\$	45,995	\$	334	42,374	\$	46,581
Interest earned on investments-program mortgage-backed securities	-	-	-	-	35,731	-	-	-	58,533	-	-	94,264	79,699	-	-	94,264	94,264	79,699
Interest earned on investments-other	590	970	2,735	6,163	427	19	468	468	11,372	587	11,959	13,678	11,959	587	587	11,959	11,959	14,445
Net G/L on Sale of MBS Held for Sale/HOMES SM Certificate	-	-	-	8,770	-	-	-	-	-	-	-	8,770	4,642	-	-	8,770	8,770	4,642
Appropriations received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administrative reimbursement	31,336	-	-	-	-	-	-	-	-	-	-	31,336	27,730	-	-	31,336	27,730	27,730
Fees earned and other income	12,971	147	1,286	1,445	1,580	-	-	-	17,429	17	17,446	14,855	14,855	17	17	17,446	15,137	15,137
Unrealized gains (losses) on Investments	-	1,472	39,450	16,004	47,468	-	-	-	104,394	116	104,510	91,444	91,444	116	116	104,510	91,730	91,730
Total revenues	44,897	10,250	98,253	47,110	108,008	619	468	468	309,605	1,054	310,659	278,043	278,043	1,054	1,054	310,659	279,964	279,964

Expenses

Interest	-	1,434	41,461	2,122	50,022	401	468	468	95,908	-	-	85,837	85,837	-	-	95,908	85,837	85,837
Financing, net	-	5	14,171	52	8,666	-	-	-	22,894	-	-	11,248	11,248	-	-	22,894	11,248	11,248
Loan administration and trustee fees	-	80	1,536	1,034	603	4	-	-	3,257	22	3,279	3,240	3,279	22	22	3,279	3,260	3,260
Administrative reimbursement	-	1,181	9,897	5,300	10,213	93	-	-	26,684	1,437	28,121	22,456	22,456	1,437	1,437	28,121	23,838	23,838
Salaries and benefits	30,283	-	-	-	-	-	-	-	30,283	-	-	15,117	15,117	-	-	30,283	15,117	15,117
Other general operating	6,900	4	38	1,667	39	-	-	-	8,648	2,295	10,943	6,786	6,786	2,295	2,295	10,943	9,687	9,687
Appropriations disbursed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reduction in carrying value of certain low interest rate deferred loans	-	-	-	78	-	-	-	-	-	-	-	24	24	-	-	449	(510)	(510)
Provision for loan losses	-	(195)	345	159	-	(1)	-	-	308	925	1,233	(613)	(613)	925	925	1,233	277	277
Total expenses	37,183	2,509	67,448	10,412	69,543	497	468	468	188,060	5,050	193,110	144,095	144,095	5,050	5,050	193,110	148,754	148,754
	7,714	7,741	30,805	36,698	38,465	122	-	-	121,545	(3,996)	117,549	133,948	133,948	(3,996)	117,549	131,210	131,210	131,210

Other changes

Non-operating transfer of assets between funds	(9,876)	59	17,175	(42,007)	19,169	-	-	-	(15,480)	16,000	520	(5,328)	(5,328)	16,000	520	(328)	(328)	(328)
--	---------	----	--------	----------	--------	---	---	---	----------	--------	-----	---------	---------	--------	-----	-------	-------	-------

Change in net position

	(2,162)	7,800	47,980	(5,309)	57,634	122	-	-	106,065	12,004	118,069	128,620	128,620	12,004	118,069	130,882	130,882	130,882
--	---------	-------	--------	---------	--------	-----	---	---	---------	--------	---------	---------	---------	--------	---------	---------	---------	---------

Net Position

Total net position, beginning of period	14,469	136,981	203,543	366,320	84,113	1,845	-	-	807,271	113,002	920,273	678,651	678,651	113,002	920,273	789,391	789,391	789,391
Total net position, end of period	\$ 12,307	\$ 144,781	\$ 251,523	\$ 361,011	\$ 141,747	\$ 1,967	\$ -	\$ -	\$ 913,336	\$ 125,006	\$ 1,038,342	\$ 807,271	\$ 807,271	\$ 125,006	\$ 1,038,342	\$ 920,273	\$ 920,273	\$ 920,273

This information on the funds of the Agency for the twelve-month period ended June 30, 2020 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the twelve-month period ended June 30, 2020 subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2019 and for the fiscal year then ended.

Minnesota Housing Finance Agency
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve & Bond Funds
As of June 30, 2020 (with comparative totals for the twelve months ended June 30, 2019)

Reconciliation of revenue over (under) expenses
to net cash provided (used) by operating activities:

Revenues over (under) expenses																							
\$	7,714	\$	7,741	\$	30,805	\$	36,698	\$	38,465	\$	122	\$	-	\$	121,545	\$	(3,996)	\$	117,549	\$	-	\$	131,214
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:																							
Amortization of premiums (discounts) and fees on program mortgage-backed securities																							
Amortization of premium (discounts) and fees on sale of HOMES SM Certificates																							
Amortization of proportionate share-Pension																							
Depreciation																							
Loss on disposal of fixed assets																							
Gain (loss) on sale of MBS held for sale and HOMES SM Certificates																							
Realized losses (gains) on sale of securities, net																							
Unrealized losses (gains) on securities, net																							
Salaries and Benefits-Pensions																							
Provision for loan losses																							
Reduction in carrying value of certain low interest rate and/or deferred loans																							
Capitalized interest on loans and real estate owned																							
Interest earned on investments																							
Interest expense on bonds and notes																							
Financing expense in bonds																							
Decrease (increase) in appropriated disbursed/(received)																							
Changes in assets and liabilities:																							
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds																							
Decrease (increase) in interest receivable on loans																							
Increase (decrease) in arbitrage rebate liability																							
Increase (decrease) in deferred revenue																							
Increase (decrease) in accounts payable																							
Increase (decrease) in interfund payable, affecting operating activities only																							
Increase (decrease) in funds held for others																							
Other																							
Total																							
Net cash provided (used) by operating activities																							

This information on the funds of the Agency for the twelve-month period ended June 30, 2020 was prepared by a fair statement of the financial position and results of operations of those funds for the twelve-month period ended June 30, 2020 subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2019 and for the fiscal year then ended.

Minnesota Housing Finance Agency
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve & Bond Funds
As of June 30, 2020 (with comparative totals for the twelve months ended June 30, 2019)

	Bond Funds										General Reserve & Bond Funds	
	General Reserve	Residential Housing Finance			Homeownership		Multifamily Housing		Bond Funds Excluding Pool 3		General Reserve & Bond Funds Total for the Twelve Months Ended June 30, 2020	General Reserve & Bond Funds Total for the Twelve Months Ended June 30, 2019
		Rental Housing	Bonds	Pool 2	Finance Bonds	Bonds	Homes SM	Twelve Months Ended June 30, 2020	Finance Pool 3 Twelve Months Ended June 30, 2020			
Cash flows from operating activities:												
Principal repayments on loans and program mortgage-backed securities	\$ -	\$ 19,871	\$ 219,201	\$ 59,905	\$ 264,940	\$ -	\$ 202	\$ 564,119	\$ 9,665	\$ 573,784	402,793	(812,390)
Investment in loans and program mortgage-backed securities	-	(20,455)	(567,965)	(77,337)	(261,963)	-	-	(927,720)	(31,048)	(958,768)	(31,048)	128,016
Interest received on loans and program mortgage-backed securities	-	7,532	57,324	13,870	63,609	600	-	142,935	337	143,272	-	-
Net G/L on Sale of MBS Held for Sale/HOMES SM Certificates	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-
Fees and other income received	12,373	147	-	11,300	-	-	-	23,820	17	23,837	22,200	(41,733)
Salaries, benefits and other operating	(32,144)	(82)	(1,535)	(7,066)	(608)	(4)	-	(41,439)	(2,258)	(43,697)	-	-
Appropriations received	-	-	-	-	-	-	-	-	-	-	-	-
Appropriations disbursed	-	-	-	-	-	-	-	-	-	-	-	-
Administrative reimbursement from funds	31,602	(1,181)	(9,897)	(5,300)	(10,213)	(93)	-	4,918	(1,437)	3,481	3,813	32,602
Deposits into funds held for others	35,956	-	-	-	-	-	-	35,956	-	35,956	(31,347)	(36,591)
Disbursements made from funds held for others	(36,086)	-	-	(505)	-	-	-	(36,591)	-	(36,591)	-	-
Interfund transfers and other assets	(2,134)	1	32	(1)	-	-	-	(2,102)	3	(2,099)	(2,514)	-
Net cash provided (used) by operating activities	9,567	5,833	(302,840)	(5,134)	55,765	-	705	(236,104)	(24,721)	(260,825)	(298,560)	-
Cash flows from noncapital financing activities:												
Proceeds from sale of bonds and notes	-	20,095	592,983	2,158,434	298,852	-	-	3,070,364	-	3,070,364	2,322,300	(1,901,551)
Principal repayment on bonds and notes	-	(16,315)	(230,115)	(2,172,507)	(291,897)	(240)	(3,248)	(2,714,322)	-	(2,714,322)	(87,166)	(7,456)
Interest paid on bonds and notes	-	(1,411)	(44,321)	(2,143)	(51,270)	(402)	(476)	(100,023)	-	(100,023)	(9,079)	-
Financing costs paid related to bonds issued	-	(5)	(6,428)	(47)	(2,599)	-	-	(9,079)	-	-	-	-
Interest paid/received between funds	63	-	-	(63)	-	-	-	-	-	-	-	-
Principal paid/received between funds	-	-	-	-	-	-	-	-	-	-	-	-
Premium paid on redemption of bonds	-	59	5,253	(15,015)	9,703	-	-	-	-	-	-	-
Agency contribution to program funds	-	-	-	(13,520)	-	-	-	(16,000)	16,000	-	-	-
Transfer of cash between funds	(2,480)	-	-	-	-	-	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	(2,417)	2,423	317,372	(44,861)	(37,211)	(642)	(3,724)	230,940	16,000	246,940	326,127	-
Cash flows from investing activities:												
Investment in real estate owned	-	-	(578)	(25)	-	-	-	(603)	-	(603)	(872)	14,751
Interest received on investments	1,517	1,007	3,200	6,347	486	22	476	13,055	298	13,353	937	6,495
Net gain (loss) on Sale of MBS Held for Sale and HOMES SM Certificates	-	-	-	(4,925)	-	-	-	(4,925)	-	(4,925)	946,525	(955,893)
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	6,121	541	-	-	-	6,662	-	6,662	1,285,016	(1,264,938)
Proceeds from maturity, sale or transfer of investment securities	119,000	392	1,948	1,160,228	-	-	3,248	1,284,816	200	1,285,016	2,232	14,175
Purchase of investment securities	(74,645)	-	(25,060)	(1,165,233)	-	-	-	(1,264,938)	-	(1,264,938)	4,118	38,683
Purchase of loans between funds	-	(17,695)	-	17,695	-	-	-	-	4,118	4,118	2,232	14,175
Net cash provided (used) by investing activities	45,872	(16,296)	(14,369)	14,628	486	22	3,724	34,067	4,616	38,683	14,175	41,742
Net increase (decrease) in cash and cash equivalents	53,022	(8,040)	163	(35,367)	19,040	85	-	28,903	(4,105)	24,798	340,262	382,004
Cash and cash equivalents:												
Beginning of period	52,210	34,866	181,158	58,018	46,143	1,554	-	373,949	8,055	382,004	\$	\$
End of period	\$105,232	\$ 26,826	\$ 181,321	\$ 22,651	\$ 65,183	\$ 1,639	\$ -	\$ 402,852	\$ 3,950	\$ 406,802	\$	\$

This information on the funds of the Agency for the twelve-month period ended June 30, 2020 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the twelve-month period ended June 30, 2020 subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2019 and for the fiscal year then ended.

(Continued)



Board Agenda Item: 8.B

Date: 8/27/2020

Item: Third Quarter 2020 Progress Report: 2020-22 Strategic Plan and 2020-21 Affordable Housing Plan

Staff Contact(s):

John Patterson, 651.296.0763, john.patterson@state.mn.us

Request Type:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input checked="" type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

Staff have attached for the Board's review and discussion the third quarter progress report for implementing the 2020-22 Strategic Plan and 2020-21 Affordable Housing Plan. The report has two sections: (1) progress in reaching three strategic goals, and (2) progress in reaching activity forecasts for 2020.

Fiscal Impact:

None

Meeting Agency Priorities:

- ☒ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☒ Make Homeownership More Accessible
- ☒ Support People Needing Services
- ☒ Strengthen Communities

Attachment(s):

- Third Quarter 2020 Progress Report: 2020-22 Strategic Plan and 2020-21 Affordable Housing Plan

Third Quarter 2020 Progress Report: 2020-22 Strategic Plan and 2020-21 Affordable Housing Plan (October 1, 2019 through June 30, 2020)

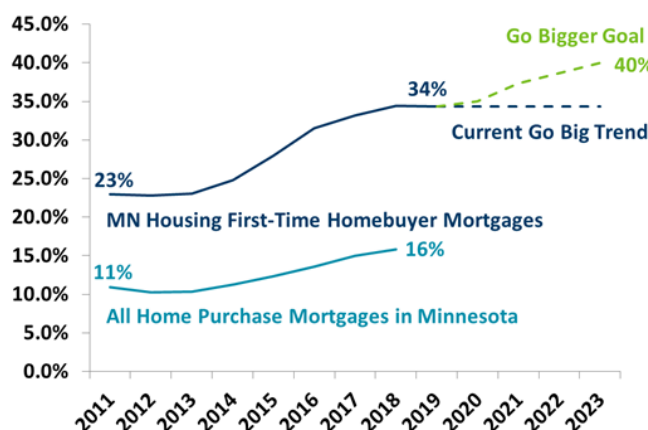
This progress report has two sections:

1. **Go Bigger Strategic Goals.** To track our progress in carrying out our 2020-2022 Strategic Plan, we have identified three priority areas for which we are setting strategic goals:
 - a. Share of first-time homebuyer mortgages going to households of color and indigenous communities
 - b. Share of new rental units that will be deeply affordable
 - c. Number of owner-occupied and rental homes that will be rehabilitated or improved
2. **Forecast of Households and Housing Units Assisted.** In our 2020-2021 Affordable Housing Plan, we forecasted the number of households and housing units that we expect to assist in program year 2020. This section of the report tracks our progress in reaching those forecasts.

After the third quarter, we are generally on track to reach our goals and forecasts, reflecting an effective kickoff of both plans. However, with COVID-19, the environment in which our programs operate has changed. We continue to monitor the impact that the pandemic is having on the economy, the financial and housing markets, and the households that we serve.

SMART Goals

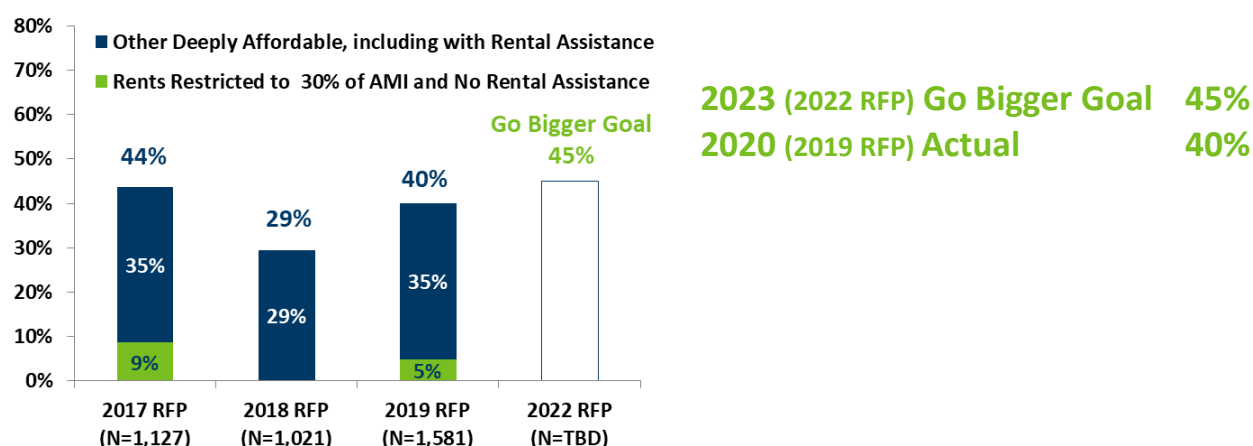
1. Share of First-Time Homebuyer Mortgages Going to Households of Color and Indigenous Communities



2023 Go Bigger Goal	40.0%
2020 Target	35.0%
After Three Quarters	34.4%

The impact of COVID-19 may make achieving the goal more challenging with the economic distress disproportionately impacting people of color and indigenous individuals.

2. Share of New Rental Units that will be Deeply Affordable*

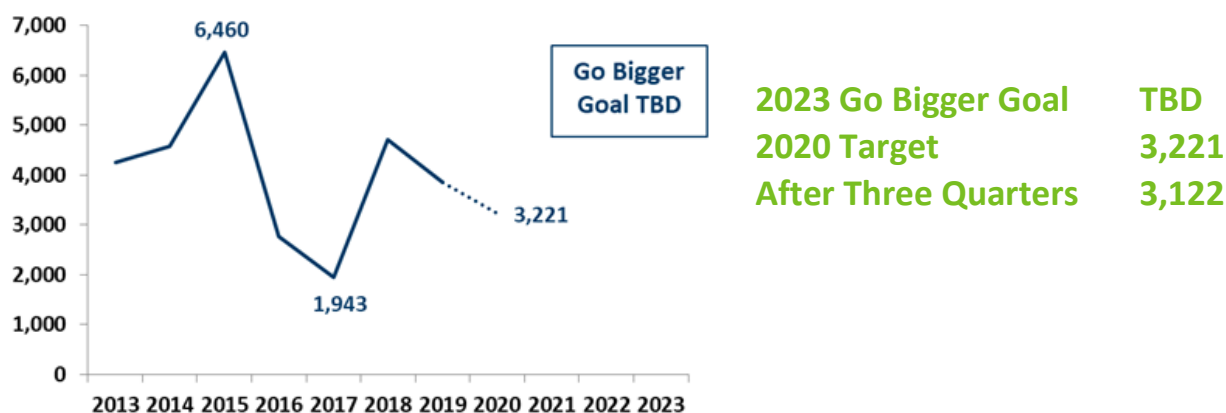


* Includes new units: (1) with contract rents that are affordable to people with incomes at or below 30% of the area median income (AMI); (2) with rental assistance, including Housing Support; and/or (3) that are permanent supportive housing.

Our ability to go bigger depends on the availability of Housing Infrastructure Bonds (HIB) and rental assistance, including the Department of Human Services' Housing Support. We are also incenting more deeply affordable units in our selection criteria for funding. Because deeply affordable units require more subsidy, there is a tradeoff between the number of units developed overall and number of deeply affordable units.

With the 2019 RFP, which had significant HIB resources, we reached 40% on a much larger number of new rental units (1,581).

3. Number of Owner-Occupied and Rental Homes that will be Rehabilitated or Improved



We are carrying out scenario analyses to identify a go-bigger, stretch goal that is achievable. With staff responding to COVID-19 impacts, this analysis has been delayed. The number of homes that we rehabilitate, particularly rental, is largely determined by the level of funding provided by the Legislature. The occurrence and size of state bonding bills play a critical role. For example, we have rehabilitated the most units when the bonding bill includes resources for rehabilitating public housing. The forecast of

3,221 homes for 2020 is based on the level of funds that are available. After the three quarters, we have nearly reached our goal.

Forecast of Households and Housing Units Assisted

The following table tracks our progress in reaching our activity forecasts by program area. For context and a comparison, it also provides the levels we have historically reached after the third quarter. We are generally on track.

Progress in Reaching Our Forecast of Households and Housing Units Assisted in 2020

		2020 Year-End Forecast	2020 Actual after Three Quarters	Share of 2020 Forecast Reached after Three Quarters	2019 Actual after Three Quarters	Historical Benchmark for Share after Three Quarters
1	Home Mortgage Lending	5,128	3,838	75%	3,442	70%
2	Homebuyer Education and Coaching	18,617	16,699	90%	15,145	75%
3	Home Improvement Lending	1,412	868	61%	777	70%
4	Other Owner-Occupied Opportunities	534	508	95%	410	100%
5	Rental New Construction & Adaptive Re-use	1,326	1,793	135%	1,130	90%
6	Rental Rehabilitation	1,595	2,053	129%	2,028	90%
7	Rental Refinance Only	288	583	202%	316	90%
8	State Rent Assistance and Operating Subsidies	3,662	3,171	87%	2,774	90%
9	Section 8 Contract Administration	29,219	27,919	96%	28,067	100%
10	Homelessness Prevention and Other Supports	6,424	3,944	61%	4,177	75%

NOTES:

Lines 1-2: Our homeownership programs operate year round on a pipeline basis, but there is seasonality to the level of activity, with the most activity in the spring and summer. For example, home mortgage lending in the first three quarters (October through June) typically accounts for 70% of a full year, with 30% occurring in the last quarter. We are currently ahead of schedule even with COVID. The year started out very strong and then slowed with COVID. We are still on track to end the year ahead of the original 2020 forecast and the level reached in 2019.

Line 3: While Fix-Up lending is on track, lending under the Rehabilitation Loan Program is slower than expected.

Line 4: Other Owner-Occupied Opportunities include our Community Homeownership Impact Fund, Workforce Affordable Homeownership Program, and Manufactured Home Communities. We have reached 95% of the year-end forecast after awarding funds through our annual Impact Fund RFP, reaching 119% of the forecasted housing units for that program. We still have to award funds under the two other programs.

Lines 5-6: After completing our annual Consolidated RFP for our core rental programs, we are largely done funding rental housing development for the year. We are well ahead of the forecast with a large amount of resources from Housing Infrastructure Bonds.

Line 7: We offer rental refinancing resources year round, and it is demand driven.

Line 8: Most of the households that we support with rental assistance will continue to receive it throughout the year, but the number of assisted units will increase as some of the vouchers turnover to new households. We will also disburse operating subsidies to more units.

Line 9: The number of households assisted with project-based rental assistance through the Section 8 program is stable, with little change over time.

Line 10: In the final quarter of the year, our homelessness prevention and support programs will continue to serve more households. We are currently on pace to serve fewer households than originally expected with the available funds because the average assistance per household is coming in at \$2,000 when we were expecting \$1,700.

In the fourth quarter report, we will be adding the COVID-19 Housing Assistance Program, which is being launched in August, to line 10 and this assessment. The forecast and actuals will be adjusted to reflect the new program.

This page intentionally left blank.

Item: Semi-annual Variable Rate Debt and Swap Report

Staff Contact(s):

Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

Debbi Larson, 651.296.8183, debbi.larson@state.mn.us

Request Type:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information |

Summary of Request:

The Agency's board-approved Debt and Balance Sheet Management Policy calls for the ongoing review and management of swap transactions including regular report to the board. This reporting is accomplished through the Semi-annual Variable Rate Debt and Swap Performance Report.

Fiscal Impact:

None.

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):

- Semi-annual Variable Rate Debt and Swap Performance Report



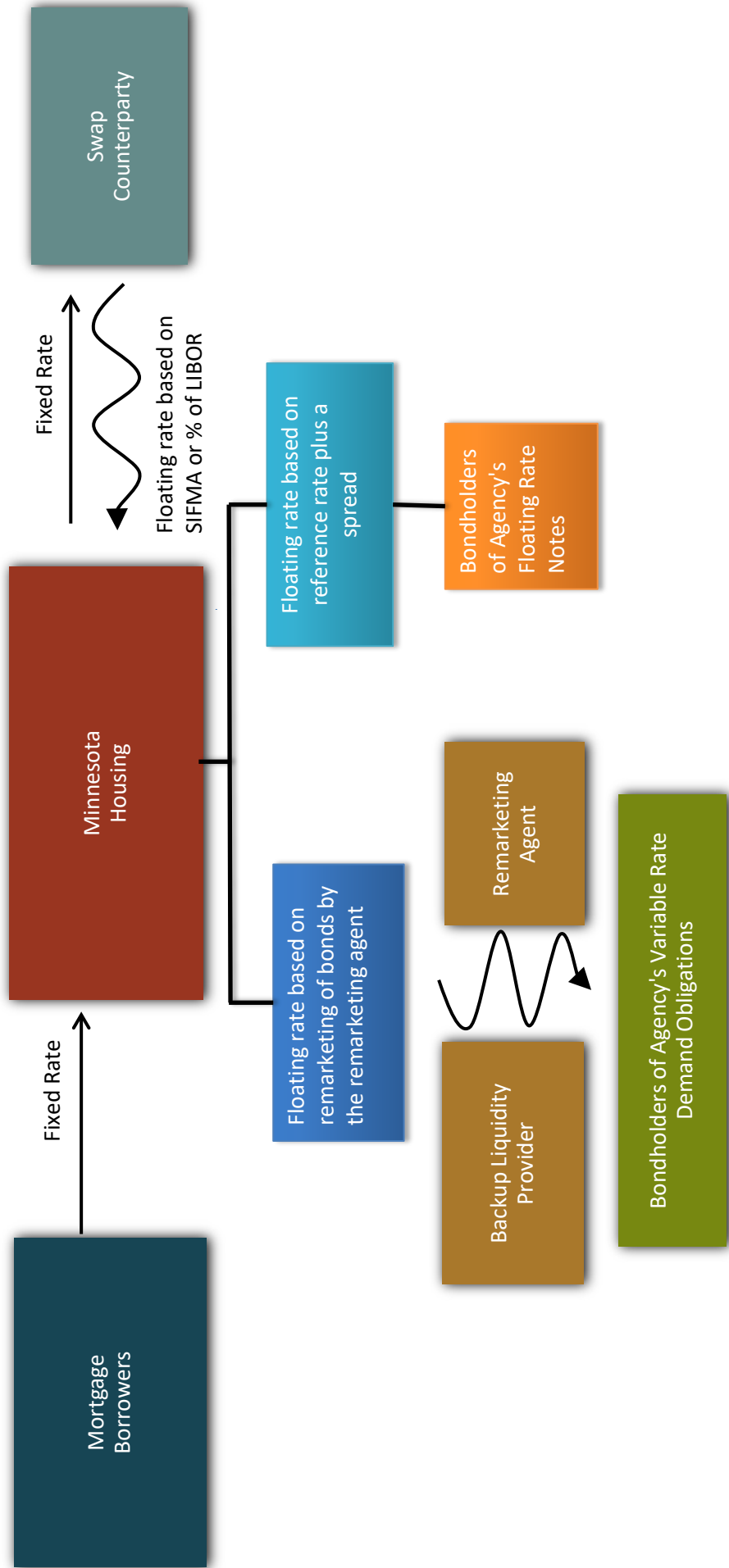
Semi-annual Variable-Rate Debt and Swap Performance Report

July 1, 2020

Table of Contents

Page	Description
1	Overview of Swap Structure: Graphic
2	Overview of Swaps
3	Basis Risk
4	Counterparty/Termination Risk
5	Liquidity Risk
6	Liquidity Renewal Risk
7	Minnesota Housing Total Debt: Fixed vs. Variable: Graph
8	Annual Debt Issuance: Fixed vs. Variable: Graph
9	Glossary of Terms

Floating-to-Fixed Interest Rate Swap Structure



Overview of Swaps

July 1, 2020

Bond Series	Effective Date	Original Notional Amount of Swap	Notional Amount Outstanding	Counterparty	Floating Rate Received
RHFB 2015 D	8/11/2015	\$ 18,225,000	\$ 18,225,000	Royal Bank of Canada	67% of LIBOR
RHFB 2015 G	12/8/2015	35,000,000	35,000,000	Royal Bank of Canada	67% of LIBOR
RHFB 2016 F	12/22/2016	50,000,000	50,000,000	Royal Bank of Canada	67% of LIBOR
RHFB 2017 C	1/1/2019	40,000,000	40,000,000	Wells Fargo	67% of LIBOR
RHFB 2017 F	12/21/2017	40,000,000	40,000,000	Wells Fargo	67% of LIBOR
RHFB 2018 D	6/28/2018	35,000,000	35,000,000	The Bank of New York Mellon	70% of LIBOR + 43 basis points
RHFB 2018 H	12/12/2018	35,000,000	35,000,000	Royal Bank of Canada	70% of LIBOR
RHFB 2019 D	4/11/2019	45,000,000	45,000,000	Royal Bank of Canada	70% of LIBOR
RHFB 2019 H	9/11/2019	43,985,000	43,985,000	The Bank of New York Mellon	100% of LIBOR
	Totals	\$ 342,210,000	\$ 342,210,000		

Basis Risk
July 1, 2020

Bond Series	Effective Date	VRDO's/FRB's and Swaps Outstanding	Net Variable Interest (Paid) Received Basis Risk (cumulative)	Contractual Swap Fixed Rate Paid	Effective Net Payment Rate*	Effective Rate As a Percentage of Swap Fixed Rate
RHFB 2015 D	8/11/2015	\$ 18,225,000	\$ (101,599)	2.343%	2.457%	104.87%
RHFB 2015 G	12/8/2015	35,000,000	(149,243)	1.953%	2.046%	104.78%
RHFB 2016 F	12/22/2016	50,000,000	(251,815)	2.175%	2.318%	106.57%
RHFB 2017 C	1/1/2019	40,000,000	(100,460)	2.180%	2.347%	107.68%
RHFB 2017 F	12/21/2017	40,000,000	(106,103)	2.261%	2.366%	104.64%
RHFB 2018 D	6/28/2018	35,000,000	(14,564)	3.1875%	3.208%	100.65%
RHFB 2018 H	12/12/2018	35,000,000	(326,546)	2.8035%	3.404%	121.43%
RHFB 2019 D	4/11/2019	45,000,000	(74,020)	2.4090%	2.544%	105.59%
RHFB 2019 H	9/11/2019	43,985,000	(60,540)	2.1500%	2.321%	107.95%
Totals		\$ 342,210,000	\$ (1,184,889) ¹			

*Fixed Rate plus/minus the net of variable rate paid/received, as of 7/1/20.

¹The cumulative total variable interest paid of \$10,417,599 on all outstanding VRDO's/FRB's and all variable interest received of \$9,232,710 on the outstanding swaps results in a net payable of \$1,184,889.

Counterparty/Termination Risk July 1, 2020

Related Bond Series	Counterparty	Short-term Credit rating ¹	Long-term Credit Rating of Provider at Swap Inception ¹	Current Long-term Credit rating ¹	Long-term Credit Outlook ¹	Notional Amount Outstanding	Swap Maturity	average life	Swap Fixed Rate	Fair Value ² as of 06-30-2020
RHFB 2015 D	Royal Bank of Canada	P-1/A-1+	Aaa/AA-	Aa2/AA-	Stable/Stable	18,225,000	1/1/2046	27.4	2.343%	(956,446)
RHFB 2015 G	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Aa2/AA-	Stable/Stable	35,000,000	1/1/2034	15.7	1.953%	(1,705,714)
RHFB 2016 F	Royal Bank of Canada	P-1/A-1+	Aa1/AA+	Aa2/AA-	Stable/Stable	50,000,000	1/1/2041	19.2	2.175%	(3,570,580)
RHFB 2018 H	Royal Bank of Canada	P-1/A-1+	Aa2/AA-	Aa2/AA-	Stable/Stable	35,000,000	7/1/2041	18.7	2.8035%	(3,656,073)
RHFB 2019 D	Royal Bank of Canada	P-1/A-1+	Aa2/AA-	Aa2/AA-	Stable/Stable	45,000,000	1/1/2042	18.5	2.4090%	(4,603,299)
	Total Royal Bank of Canada					183,225,000 ³				(14,492,112)
RHFB 2018 D	The Bank of New York Mellon	P-1/A-1+	Aa2/AA-	Aa2/AA-	Stable/Stable	35,000,000	1/1/2045	23.3	3.1875%	(2,703,501)
RHFB 2019 H	The Bank of New York Mellon	P-1/A-1+	Aa2/AA-	Aa2/AA-	Stable/Stable	43,985,000	1/1/2047	25.7	2.1500%	(3,049,402)
	Total The Bank of New York Mellon					78,985,000 ³				(5,752,904)
RHFB 2017 C	Wells Fargo Bank	P-1/A-1	Aa2/AA-	Aa2/A+	Stable/Stable	40,000,000	1/1/2038	16.8	2.180%	(3,106,433)
RHFB 2017 F	Wells Fargo Bank	P-1/A-1	Aa2/AA-	Aa2/A+	Stable/Stable	40,000,000	1/1/2041	19.7	2.261%	(2,166,444)
	Total Wells Fargo					80,000,000 ³				(5,272,877)
	Total All Swaps					\$ 342,210,000				\$ (25,517,893)

¹Moody's/Standard & Poors

²A positive fair value represents money due the Agency from the Counterparty upon termination. A negative number represents money payable by the Agency upon termination. Valuations are provided by BLX.

³Counterparty Exposure Percentage:

Royal Bank of Canada	54%
The Bank of New York Mellon	23%
Wells Fargo	23%

Liquidity Risk
July 1, 2020

Bond Series	Current Liquidity Provider	Remarketing Agent	Short-term Credit Rating ¹	Long-term Credit Rating ¹	Long-term Credit Outlook ¹	VRDO's Outstanding	VRDO Maturity	Liquidity Facility Expiration	Liquidity Fee
RHFB 2015 D	Royal Bank of Canada	Royal Bank of Canada	P-1/A-1+	Aa2/AA-	Stable/Stable	\$ 18,225,000	1/1/2046	8/11/2022	0.65%
RHFB 2015 G	Royal Bank of Canada	Royal Bank of Canada	P-1/A-1+	Aa2/AA-	Stable/Stable	35,000,000	1/1/2034	1/2/2023	0.65%
RHFB 2017 F	Royal Bank of Canada	Royal Bank of Canada	P-1/A-1+	Aa2/AA-	Stable/Stable	40,000,000	1/1/2041	1/2/2023	0.40%
RHFB 2019 D	Royal Bank of Canada	Royal Bank of Canada	P-1/A-1+	Aa2/AA-	Stable/Stable	45,000,000	1/1/2042	7/1/2024	0.34%
	Royal Bank of Canada subtotal					<u>138,225,000</u> ³			
RHFB 2016 F	FHLB - Des Moines ²	Royal Bank of Canada	P-1/A-1+	Aaa/AA+	Stable/Stable	50,000,000	1/1/2041	1/2/2024	0.55%
RHFB 2017 C	FHLB - Des Moines ²	Royal Bank of Canada	P-1/A-1+	Aaa/AA+	Stable/Stable	40,000,000	1/1/2038	7/19/2024	0.60%
	FHLB - Des Moines subtotal					<u>90,000,000</u> ³			
RHFB 2019 H	US Bank	US Bank Municipal Securities	P-1/A-1	A1/A+	Stable/Stable	43,985,000	1/1/2050	9/10/2024	0.33%
	US Bank subtotal					<u>43,985,000</u> ³			
	Total All Liquidity Providers					<u>\$ 272,210,000</u>			

¹Moody's/Standard & Poors

²Federal Home Loan Bank of Des Moines

³Liquidity Provider Exposure Percentage:
Royal Bank of Canada 51%
Federal Home Loan Bank of Des Moines 33%
US Bank 16%

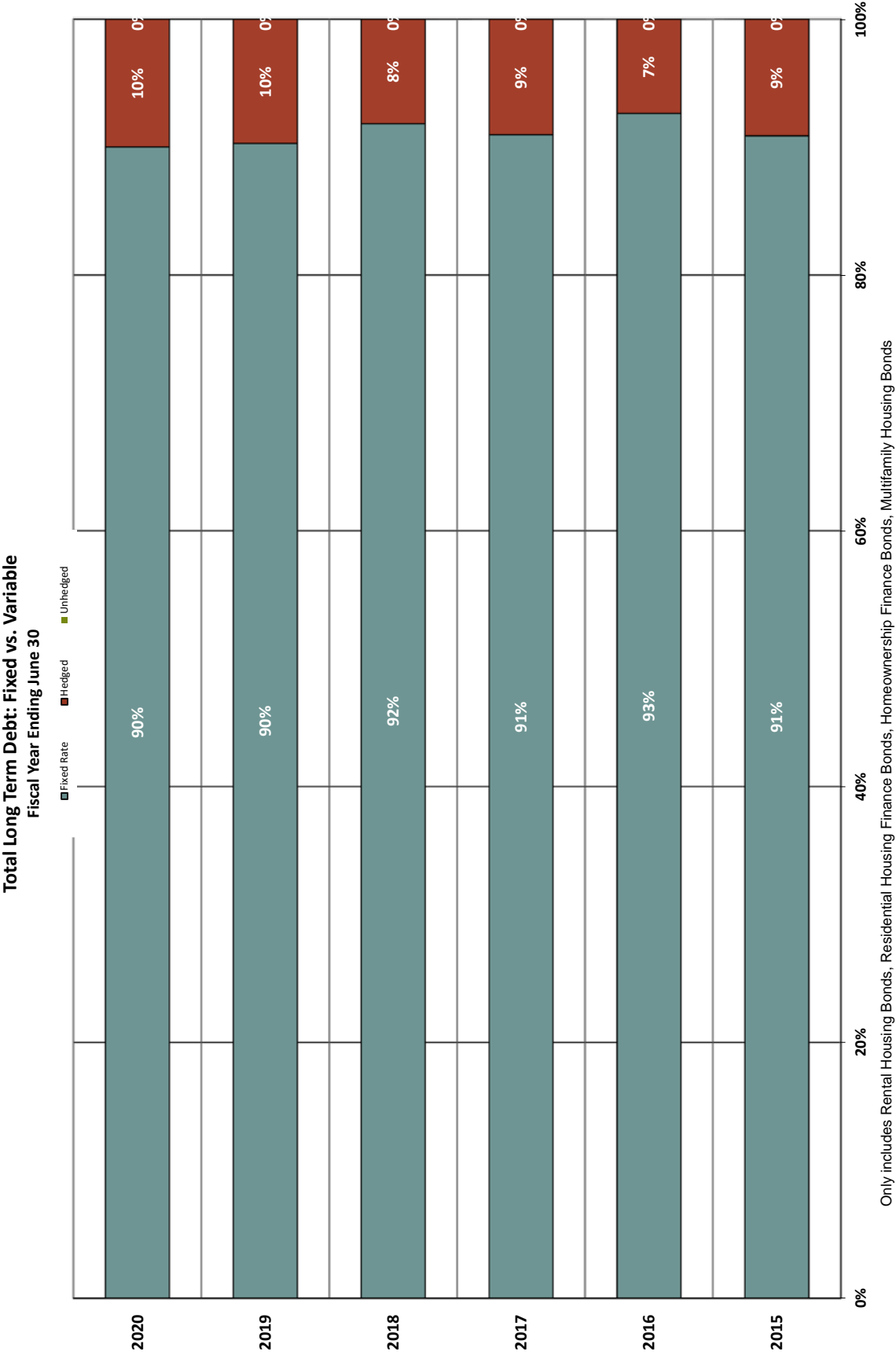
Note: RHFB 2018 D and RHFB 2018 H (FRB's)-No liquidity provider or remarketing agent.

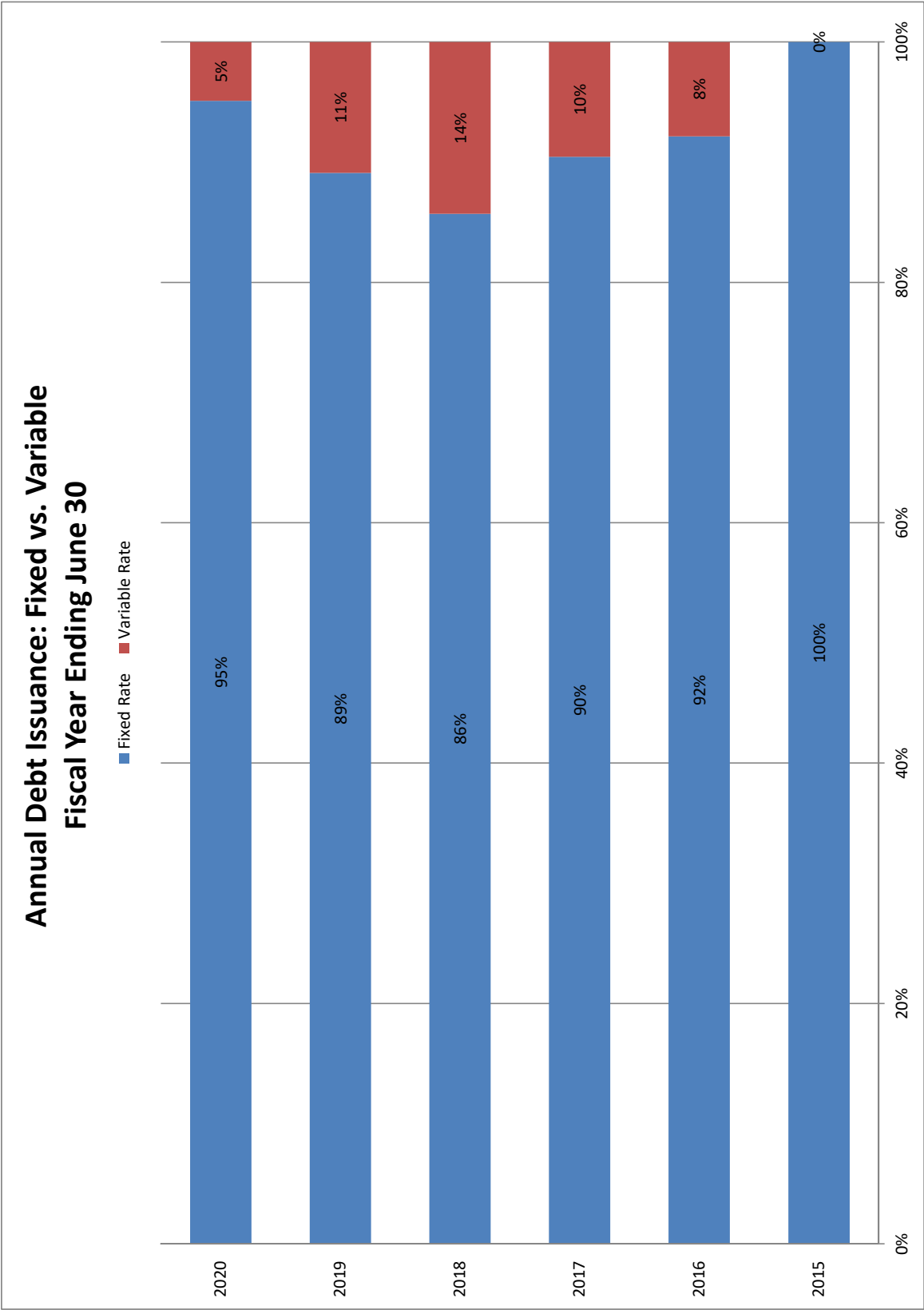
Liquidity Renewal Requirements July 1, 2020

Issue	Liquidity Provider	Final Swap Maturity	Full Optional Termination Date	Liquidity Expiration Date	Original Notional Amount	Outstanding Notional Amount as of 07/01/2020	Scheduled Notional Amount Outstanding at Liquidity Expiration	Minimum Notional Amount Outstanding at Liquidity Expiration	Swap Counterparty
2015 D	Royal Bank of Canada	1/1/2046	7/1/2022	8/11/2022	\$ 18,225,000	\$ 18,225,000	\$ 18,225,000	-	RBC ¹
2015 G	Royal Bank of Canada	1/1/2034	1/1/2023	1/2/2023	35,000,000	35,000,000	35,000,000	-	RBC ¹
2017 F	Royal Bank of Canada	1/1/2041	1/1/2023	1/2/2023	40,000,000	40,000,000	40,000,000	-	WF ³
2019 D	Royal Bank of Canada	1/1/2042	7/1/2024	7/1/2024	45,000,000	45,000,000	45,000,000	-	RBC ¹
	Royal Bank of Canada subtotal				138,225,000	138,225,000	138,225,000	-	
2016 F	FHLB - Des Moines ²	1/1/2041	1/1/2024	1/2/2024	50,000,000	50,000,000	50,000,000	-	RBC ¹
2017 C	FHLB - Des Moines ²	1/1/2038	7/1/2024	7/19/2024	40,000,000	40,000,000	40,000,000	-	WF ³
	FHLB - Des Moines subtotal				90,000,000	90,000,000	90,000,000	-	
2019 H	US Bank	1/1/2047	1/1/2027	9/10/2024	43,985,000	43,985,000	43,985,000	42,620,000	BoNY ⁴
	US Bank subtotal				43,985,000	43,985,000	43,985,000	42,620,000	
	Total All Liquidity Providers				\$ 272,210,000	\$ 272,210,000	\$ 272,210,000	42,620,000	

¹Royal Bank of Canada ²Federal Home Loan Bank of Des Moines ³Wells Fargo ⁴Bank of New York

Note: RHFB 2018 D and RHFB 2018 H (FRB's)-No liquidity provider or remarketing agent.





Only includes Rental Housing Bonds, Residential Housing Finance Bonds, Homeownership Finance Bonds, Multifamily Housing Bonds and HOMESSM Certificates.

Glossary of Terms

The following are explanations of certain terms used in this presentation:

Amortization Risk

Minnesota Housing is subject to amortization risk on its hedged VRDOs because the prepayments from mortgage loans securing the bonds may cause the outstanding principal amount of bonds to decline faster than the nominal amount of the swap. To manage amortization risk, termination options have been structured into its outstanding swaps to enable Minnesota Housing in certain circumstances to reduce the nominal amounts of the swaps to correspond to the outstanding principal amount of the bonds hedged by the swap. Additionally, Minnesota Housing may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk

Basis risk refers to a mismatch between the floating interest rate received from the swap counterparty and the interest actually paid on the related series of Minnesota Housing's variable rate bonds. Under its outstanding swaps, Minnesota Housing pays a fixed interest rate and in return receives a floating variable rate based on LIBOR or the SIFMA Municipal Swap index, plus a specified spread if the swap relates to tax-exempt bonds. Minnesota Housing's bonds hedged by its swaps bear interest at a variable rate that is reset weekly, based on market conditions. Minnesota Housing's risk is that the variable interest payments received from the counterparty will be less than the variable interest payments actually paid on the bonds. This mismatch between the actual bond interest rate and the swap floating interest rate would cause additional interest expense to Minnesota Housing. A mismatch could occur for various reasons, including an increased supply of tax-exempt bonds, deterioration of the credit quality of Minnesota Housing or the liquidity facility provider, or a reduction of federal income tax rates for corporations and individuals. Basis risk varies over time due to inter-market conditions. Tax risk is a form of basis risk.

Counterparty Risk

Counterparty risk is the risk that the swap counterparty will not perform pursuant to the swap contract's terms, either in making regular payments or termination payments. Under a fixed payor swap, for example, if the counterparty defaults, Minnesota Housing could be exposed to unhedged variable rate bonds. The creditworthiness of the counterparty is indicated by its senior unsecured long-term credit rating. The outstanding swap agreements contain varying collateral requirements based on the respective parties' credit ratings and the fair value of the swaps to mitigate potential credit risk exposure.

FRB's

Floating-rate bonds ("FRBs") are securities which offer interest rates that periodically reset to changes in a representative interest rate index, normally plus a spread. They can be issued at any maturity, including with nominal long-term maturities that include a mandatory tender following the stated floating rate period. FRBs do not require liquidity support.

LIBOR

US Dollar London Interbank Offered Rate, One Month maturity.

Glossary of Terms (continued)

Liquidity Risk

Issuers of VRDOs face liquidity risk due to the ability of holders of the bonds to tender them for purchase upon short notice. The bonds are to be remarketed by a remarketing agent appointed by the issuer, but if the remarketing were to fail, the liquidity facility provider providing liquidity support to cover tenders would be required to purchase the bonds. In such event, the bonds, known as “bank bonds,” would bear interest at a higher “bank rate” and be subject to principal amortization over a much shorter period than their stated terms. The bank rate typically floats at a few percentage points higher than the prime rate. Because of turmoil in the financial markets, substantially fewer financial institutions are providing liquidity facilities and at a substantially higher cost. Consequently, at the expiration of a liquidity facility, Minnesota Housing may have difficulty obtaining a replacement liquidity facility or may have to pay substantially higher fees.

SIFMA

Securities Industry and Financial Markets Association.

Tax Risk

All issuers who issue tax-exempt variable rate debt inherently accept risk arising from changes in marginal federal income tax rates. For variable rate tax-exempt bonds hedged with LIBOR-based swaps, basis risk may be realized if changes in the federal tax code alter the historical relationship between taxable and tax-exempt short-term rates on which the swap was structured.

Termination Risk

Termination risk is the risk that the swap may be terminated as a result of any of events specified in the swap, which may include a ratings downgrade for Minnesota Housing or its counterparties, covenant violation by either party, bankruptcy of either party, swap payment default by either party, events of default under the bond resolution and certain specified termination events.

Upon a termination of the swap at fair value, a termination payment may be due by one party to the other based upon the fair value of the swap at the time (even if the payment is owed to the defaulting party). The potential termination risks to Minnesota Housing are the liability for a termination payment to the counterparty or the inability to replace the swap with favorable financial terms, in which event the variable rate bonds would no longer be hedged. Under its outstanding swaps, Minnesota Housing has the ability in certain circumstances to terminate the swap in whole or in part at par, rather than at fair value, in order to mitigate amortization risk.

VRDOs

Variable Rate Demand Obligations (“VRDOs”) are floating rate bonds that have a stated long-term maturity but bear interest at a short-term rate that is reset periodically (generally weekly). The holder of the bonds has the option to tender the bonds for purchase upon short notice (generally seven days). If the bonds cannot be remarketed by the remarketing agent, the liquidity facility provider (and not the issuer) is obligated to purchase the bonds.

This page intentionally left blank.

Item: Post-Sale Report, Homeownership Finance Bonds (HFB) 2020 Series D (Taxable)

Staff Contact(s):

Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

Request Type:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information |

Summary of Request:

The Agency sold \$100,000,000 of Homeownership Finance Bonds on August 6,, 2020 with a closing on August 20, 2020. In accordance with the Debt and Balance Sheet Management Policy the attached detailed post-sale report is provided by the Agency's financial advisor, CSG Advisors.

Fiscal Impact:

None.

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☒ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):

- Post-Sale Report

Via Email Delivery

MEMORANDUM

Date: August 11, 2020

To: Minnesota Housing Finance Agency

From: Gene Slater, Tim Rittenhouse, David Jones, Eric Olson

Re: Post-Sale Report
\$100,000,000 Homeownership Finance Bonds (HFB)
2020 Series D (Taxable)

BOND CRITERIA

The 2020 Series D Homeownership Finance Bonds financed single-family new production with taxable pass-through bonds.

The key criteria for issuing the debt were:

1. ***Avoid major interest rate risk*** by continuing to hedge pipeline production until loans are either sold or permanently financed by bond issues.
2. ***Maintain high ratings on all Minnesota Housing single-family bonds***, with this issue rated Aaa.
3. ***Enable Minnesota Housing to continue ongoing contributions to key state housing needs*** by strengthening its long-term sustainability.
4. ***Use bond volume cap as efficiently and sparingly as possible***, to continue both its single-family and multi-family programs.

KEY RESULTS FOR MINNESOTA HOUSING

Key Measurable Objectives. Minnesota Housing's objectives for each issue reflect its overall goal: Maintain a long-term sustainable program that continues to finance production on the balance sheet so long as this is the best execution. Minnesota Housing therefore seeks to:

1. Obtain a present value return for Minnesota Housing at least similar to selling the same MBS in the secondary market, assuming a reasonable prepayment speed.
2. Obtain, if possible, the 1.125% spread on the overall issue that the IRS would allow if the issue were all tax-exempt.

3. Balance the amount of (a) new volume cap needed in financing such production and (b) the amount of zero participations required, so that the Agency can continue its program in future years.
4. Where possible, use opportunities to balance the impact of hedge gains and losses across transactions on Agency current year income.

Accomplishments. The results were extraordinarily successful in meeting Minnesota Housing's objectives:

- **Leveraging Limited Volume Cap.** The issue was structured so that Minnesota Housing could finance \$100 million of new mortgages on-balance-sheet without any volume cap, given the current interest by investors in these taxable bonds; this reflects the Federal Reserve's enormous purchases of taxable debt, pushing rates to all-time lows.
- **Spread and Zero Participations.** The agency received an overall spread of 1.488%. No zero participations were created or used since this was an all-taxable financing.
- **Attractive Bond Yield.** The bond yield was 1.92%, by far the lowest on any new money taxable pass-through issue, either by Minnesota or any other state housing finance agency.
- **Economic Return to Minnesota Housing.** The relative benefits to Minnesota Housing from issuing the bonds depend on how long the mortgages remain outstanding. The break-even prepayment speed¹ compared to selling the loans was 173% PSA.

The net present value to Minnesota Housing (after net service release premiums and hedge losses) is projected to be approximately \$4.9 million at 150% PSA prepayment speed.

- **Hedging.** The loan production pipeline remained fully hedged until bonds were sold. Minnesota Housing incurred a loss of \$ 0.58 million when it terminated the hedges.
- **Sizing and Investor Demand.** The issue was sized based on the available pipeline.

Implications. Key implications include:

- **Pass-Through Approach.** Minnesota Housing continues to be the national leader in issuing single-family pass-through bonds to help finance production on-balance-sheet. The net financial benefit from pass-through bonds compared to traditionally structured bonds varies from issue to issue. Given varying levels of demand for such bonds, the Agency has been timing and sizing the mix of tax-exempt and taxable pass-through series based on the demand from investors.
- **Balance Sheet Management.** Minnesota Housing continues to be able to finance Start-Up

¹ The break-even speed measures how fast mortgages can prepay while still assuring Minnesota Housing at least the same present value as an MBS sale.

loans for first-time homebuyers in a way that provides long-term annual revenues for the Agency's future.

- **Volume Cap.** Minnesota Housing's single-family production together with demand for multi-family issuance in the State remains so great that private activity volume cap is a major constraint on tax-exempt issuance. To help address this, the Agency was able to issue the bonds using taxable debt.

TIMING AND STRUCTURE

Timing. The pricing was accelerated by a week in order to take advantage of a strong market for taxable municipal bonds and the interest of pass-through investors. Series D was priced on Thursday, August 6, for closing on Thursday, August 20th.

Major Design Decisions. Key decisions by Minnesota Housing were to:

- Continue to include a 10-year par call at Minnesota Housing's option, so that the Agency can potentially take advantage of interest rates in the future to either refund the bonds or sell the MBS and pay off the bonds.
- Include GNMA, FNMA and FHLMC MBS in the issue, with no percentage limit on any category. This provides Minnesota Housing the ability to adjust to the actual mix of loans in its pipeline.

Rating. Bonds under the HFB indenture are rated Aaa by Moody's.

BOND SALE RESULTS. Key highlights are:

1. **Investor Interest.** This taxable issue was oversubscribed by 5.1 times, enabling Minnesota Housing to reduce the bond yield significantly, by 8 basis points, from 2.0% to 1.92%.
2. **Treasuries.** The 10-year Treasury has been the key barometer of perceived risk in both the national and global economy, and reaction to the COVID-19 pandemic. Starting in late February, coronavirus news led to an extraordinary and rapid flight to quality. The 10-year dropped from 1.52% on February 20th to 0.54% on March 9th when Series A was priced.

Treasuries then briefly rose as high as 1.18% on March 18, but with Federal Reserve action and economic lock-downs across the country, the 10 year Treasury dropped back to +/- 60 basis points. The yield was 0.64% on May 4th when Series B/C was priced. As the country beginning to re-open economically, the 10 year rose to 0.88% in mid-June when RHFB DE was sold. Since then, the resurgence of COVID-19 in many states across the country, continuing unemployment, uncertainties about school openings, job losses and, at least temporary expiration of the \$600 federal supplement to weekly unemployment benefits have all pushed rates even lower. The 10 year was 0.55% when Series D was priced.

3. **Municipals.** As the pandemic affected financial markets, there was a global flight to quality to Treasuries and mortgage-backed securities (boosted by the Federal Reserve's own

purchases of each). The municipal bond market initially underperformed Treasuries as municipal bond investors pulled back from the market and required higher spreads than prior to the crisis. The 10 year MMD rose from about 80% of the 10 year Treasury to double that level as late as May. However, the last few months have seen renewed buying by municipal investors both for tax-exempt and taxable bonds, driving down these ratios and the spreads to Treasuries. This helped lead to the extraordinary investor interest in Minnesota Housing's Series D, even at record low interest rates.

Issue	Date	10-Year Treasury	10-Year MMD	MMD/Treasury Ratio
2019 HFB AB	2/7/19	2.65%	2.14%	80.8%
2019 RHFB ABCD	3/7/19	2.64%	2.08%	78.8%
2019 HFB CD	5/14/19	2.42%	1.73%	71.5%
2019 HFB E	6/13/19	2.10%	1.66%	79.0%
2019 HFB F	7/16/19	2.13%	1.58%	74.2%
2019 RHFB EFGH	8/20/19	1.55%	1.23%	79.4%
2019 HFB G	11/13/19	1.88%	1.58%	84.0%
2019 HFB H	12/11/19	1.79%	1.42%	79.3%
2020 RHFB ABC	1/23/20	1.74%	1.25%	71.8%
2020 HFB A	3/9/20	0.54%	0.78%	144.4%
2020 HFB BC	5/13/20	0.64%	1.09%	170.3%
2020 RHFB DE	6/9/20	0.84%	0.88%	104.8%
2020 HFB D	8/6/20	0.55%	0.59%	107.3%
Change from RHFB DE		-29 bp	-29 bp	+ 2.5%

4. **Comparison to GNMA Yields.** Investors compare yields on pass-through issues to current-coupon GNMA's, although pass-through bonds provide much less liquidity in the global markets. GNMA yields dropped by 36 basis points since the last taxable pass-through, 2020 C, but Minnesota Housing's taxable bond yield dropped even more, by 53 basis points.

Recent Minnesota Taxable Pass-Through Transactions

	2019 B Feb. 19	2019 D May 19	2019 E June 19	2019 F July 19	2019 G Nov. 19	2020 A Mar. 20	2020 C May 13	2020 D Aug. 6
Minn. Housing bond yield	3.80%	3.55%	3.25%	3.23%	3.02%	2.365%	2.45%	1.92%
Yield on GNMA I, 3.0 current coupon, at dealer prepay speed	3.15%	2.92%	2.71%	2.70%	2.58%	2.07%	1.84%	1.48%
Minn. Housing v. GNMA	+65 bp	+63 bp	+54 bp	+53 bp	+44 bp	+29.5 bp	+61 bp	+44 bp

- 5. Comparable Pass-Through Transactions:** Aside from Minnesota Housing, other issuers of taxable pass-through bonds for new production include Colorado and Virginia. While spreads to Treasury and GNMA indices have shifted dramatically during the pandemic, the yields on Minnesota Series D was by far the lowest ever achieved on a new money pass-through issue.

State HFA Taxable New Money Pass-Through Transactions

	VA 2019 A	Minn. 2019 G	Colo. 2019 CC	VA 2020 A	Minn. 2020 A	Colo. 2020 AA	Colo. 2020 BB	Minn. 2020 C	Minn. 2020 D
Size (mill.)	\$108.5	\$90.3	\$65.0	\$120.8	\$44.0	\$55.0	\$45.4	\$38.0	\$100.0
Rating	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
Pricing Date	10/21	11/13	11/20	1/17	3/9	3/11	4/14	5/13	8/6
Price	Par	Par	Par	Par	101	Par	Par	Par	Par
Ave. Life at 150% PSA (years)	8.8	8.7	8.9	8.6	8.7	8.8	8.8	8.6	8.7
Yield	2.95%	3.02%	2.907%	2.85%	2.365%	2.35%	2.60%	2.45%	1.92%
Spread to 10yr US Treas. (bp)	+115	+114	+115	+101	+183	+153	+184	+181	+137
Spread to 3% GNMA (at Dealer Prepay Speed) (bp)	+45	+44	+46	+37	+30	+0	+122	+61	+44
Underwriter	Wells	RBC	RBC	BofA	RBC	RBC	RBC	RBC	RBC

Underwriters. RBC was the senior manager; regular co-managers were J.P. Morgan, Piper Sandler and Wells Fargo. Monthly pass-through bonds are sold only to institutional investors, so there was no selling group.

Underwriter Fees. Management fees were appropriate, consistent with industry standards, in the same range as fees for other housing issues of similar size and structure.

Minnesota Housing Finance Agency
HFB 2020 Series D Post-Sale Report

ISSUE DETAILS

Economic Calendar. Almost all economic news since mid-March has been driven by the COVID-19 pandemic. Approximately 30 million Americans, about 1 in 5 of all workers, are currently receiving unemployment benefits. On the morning of the sale, new initial jobless claims came in at 1.19 million, slightly below consensus forecasts. Most economists were focused on the nature and scope of a Federal new relief package, creating great uncertainty as to the next phase of economic hardship during the pandemic.

MBS Yields. MBS yields are very relevant because investors can choose between purchasing MBS directly or buying Minnesota Housing's bonds backed by MBS. As described above, bond purchasers look as much to the spread between Minnesota Housing's pass-through bonds and MBS as they do to the spread between Minnesota Housing bonds and Treasuries or MMD.

Type	Delivery	Coupon	Measure	May 14, 2019	Jun 13, 2019	July 16, 2019	Nov 13, 2019	Dec. 11, 2019	Mar. 9, 2020	May 13, 2020	Aug. 6, 2020
GNMA	Current	3.0	Price	100.45	101.48	101.52	102.08	102.72	103.58	105.36	105.08
			Yield*	2.92%	2.71%	2.70%	2.58%	2.43%	2.07%	1.84%	1.48%
			Dealer Forecast % PSA	173%	195%	205%	210%	224%	303%	306%	442%
FNMA	Current	3.5	Price	101.27	102.11	102.11	102.36	102.69	104.14	105.48	105.58
			Yield*	3.24%	3.00%	2.85%	2.78%	2.61%	1.31%	0.80%	0.53%
			Dealer Forecast % PSA	224%	284%	383%	407%	443%	735%	774%	787%
10yr US Treas.	n/a	n/a	Yield	2.42%	2.10%	2.13%	1.88%	1.79%	0.54%	0.64%	0.55%
10yr MMD	n/a	n/a	Yield	1.73%	1.66%	1.58%	1.58%	1.42%	0.78%	1.09%	0.59%
GNMA % of 10-Year Treasury	n/a	n/a	Yield*	120.7%	129.0%	126.8%	137.2%	135.8%	383.3%	287.5%	269.1%
GNMA % of 10-Year MMD	n/a	n/a	Yield*	168.8%	163.3%	170.9%	163.3%	171.1%	265.4%	168.8%	250.8%
Minnesota Housing	Tax-exempt / Taxable	n/a	Yield	3.45% 3.80%	3.15% 3.55%	n.a. 3.25%	n.a. 3.02%	2.47% n.a.	n.a. 2.365%	2.35% 2.45%	n.a. 1.92%

* Yield at dealer forecast prepayment speed

This page intentionally left blank.

Item: Semi-Annual Chief Risk Officer Report**Staff Contact(s):**

Mike Thone, 651.296.9813, Mike.Thone@state.mn.us

Rachel Robinson, 651.297.3125, Rachel.Robinson@state.mn.us

Request Type:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information |

Summary of Request:

Agency management has developed procedures for the receipt, retention and treatment of allegations of conflict of interest, misuse of funds, and fraud/embezzlement submitted to the Chief Risk Officer or other agency personnel by any person internal or external to the Agency.

This is a semi-annual update from the Chief Risk Officer regarding the status of conflict of interest, misuse of funds, and fraud/embezzlement investigations initiated as a result of allegations received by the Chief Risk Officer or other agency personnel. The last Chief Risk Officer report was made February 27, 2020.

The next semi-annual report is expected to be delivered February 2021, for the period covering July 1, 2020 - December 31, 2020.

Fiscal Impact:

None

Meeting Agency Priorities:

- ☐ Address Specific and Critical Local Housing Needs
- ☐ Finance Housing Responsive to Minnesota's Changing Demographics
- ☐ Preserve Housing with Federal Project-Based Rent Assistance
- ☐ Prevent and End Homelessness
- ☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):

- Status of Conflict of Interest, Misuse of Funds, and Fraud/Embezzlement Investigations Opened by the Agency or Chief Risk Officer, for the Period January 1, 2020 – June 30, 2020.

This update informs the Board about the number of conflict of interest, misuse of funds, and fraud/embezzlement investigations opened and resolved, and investigations still in-process for the identified period.

Status of Conflict of Interest, Misuse of Funds, and Fraud/Embezzlement Investigations Opened by the Agency or Chief Risk Officer For the Period January 1, 2020 – June 30, 2020				
Allegation Type	Investigations in-process as of December 31, 2019	New Investigations Opened During the Period	Investigations Resolved During the Period	Comments Regarding Investigations
Alleged Conflict of Interest (COI)	0	1	1	1) One allegation reported and investigated - determined no COI policy violations occurred 2) No investigations currently in-process
Alleged Misuse of Funds (MOF) less than \$50,000	0	1	1	1) Resolved by recapture of misused funds 2) No investigations currently in-process
Alleged Misuse of Funds (MOF) greater than \$50,000	0	0	0	No allegations reported and no investigations currently in-process
Alleged Fraud/Embezzlement	0	1	0	1) One investigation reported and currently in-process
Summary	0	3	2	